

POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES—PART 1

HEARING BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES NINETY-EIGHTH CONGRESS

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POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES—Part 1

WEDNESDAY, AUGUST 3, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met at 9:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[Press release of Thursday, July 21, 1983]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES PUBLIC HEARINGS ON POSSIBLE RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES

The Honorable Sam M. Gibbons (D., Fla.), Chairman, Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will conduct hearings on Wednesday, August 3, 1983, on possible renewal of the authority of the President under Title V of the Trade Act of 1974 to grant duty-free treatment on eligible articles from beneficiary developing countries under the Generalized System of Preferences (GSP). This authority is due to expire on January 3, 1985.

The hearing will be held in the Committee on Ways and Means main hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

The purpose of the hearing is to receive views on renewal of GSP authority and any proposals for possible revisions in the program. In particular, the Subcommittee will be interested in reactions to the general goals of the Administration in seeking renewal legislation outlined in a letter from U.S. Trade Representative William E. Brock to Chairman Rostenkowski, dated July 12:

"The Administration proposes that the renewed GSP program be structured so as to further the goals of: (1) limiting GSP treatment for highly competitive products; (2) assuring U.S. exports greater market access in beneficiary countries; (3) reallocating benefits to the less developed beneficiary countries to the degree possible; and (4) conforming to U.S. international obligations under the GATT.

"Under the renewed program, the President should continue to be guided in his GSP eligibility decisions by the following factors set forth under the existing statute and administrative procedures:

- "1. The development level of individual beneficiaries;
- "2. The beneficiary country's competitiveness in a particular product;
- "3. The overall interests of the United States;
- "4. The effect such action will have on furthering the economic development of developing countries;
- "5. Whether or not the other major developed countries are extending generalized preferential tariff treatment to such product or products;
- "6. The anticipated impact of such action on United States producers of like or competitive products; and
- "7. The extent to which the beneficiary country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country."

NOTE.—Part 2 will contain hearings held on Feb. 8 and 9, 1984.

However, the Administration intends to depart from current practice by giving increased weight to two of these factors: the level of economic development of a beneficiary and whether that country provides adequate market access to U.S. exports. In its market access considerations, the Administration will examine not only beneficiary country tariff and non-tariff barriers to trade in goods and services, but also other trade-distorting practices such as performance requirements and inadequate protection of intellectual property rights.

The Administration proposed that the considerations noted above be employed with respect to the limitation of GSP treatment for highly competitive products from the more advanced beneficiaries and with respect to the liberalization of GSP treatment as a means to induce beneficiary countries to provide significant market access. Given the authority to liberalize GSP treatment beyond present statutory restraints, the Administration would also attempt to ensure that the least developed beneficiary countries receive the greatest amount of benefits possible under the system.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler ((202) 225-3627) no later than the close of business Friday, July 29, 1983, to be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Each statement to be presented to the Subcommittee or any written statement submitted for the record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statements, by the close of business Friday, August 5, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose during the course of the public hearing.

Chairman GIBBONS. Good morning, ladies and gentlemen. Let me say at the beginning of this hearing that I am going to have to quit at 2 p.m. I intend to go straight through. Anybody we do not get by 2 p.m., I will get as quickly as we can get back to this subject.

Good morning, ladies and gentlemen. Today we begin hearings on possible renewal of the President's authority to grant duty free treatment on imports from developing countries under the generalized system of preferences. The GSP authority under the Trade Act of 1974 expires on January 3, 1985. The administration has proposed a 10-year renewal of the authority as outlined in the subcommittee's press release announcing this hearing, and as introduced by Senator Danforth by request as S. 1718.

That proposal would make significant changes in the current program by using GSP as leverage to seek liberalization of foreign barriers to U.S. exports. The purpose of these hearings will be to

review views on whether the GSP program should be renewed, and specific proposals for possible changes in the authority. We will be particularly interested in reactions to the administration proposal.

We have received so many requests to testify that it will be necessary to hold an additional day or days of hearings as the schedule permits this fall, to be announced by me at a later date.

Today we will receive testimony from the administration and as many other witnesses as we can. Thank you very much, Ambassador Brock and Secretary Dam. We look forward to hearing you. And we see Mr. Tracy and Mr. Searby. Ambassador Brock, you may proceed.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Ambassador BROCK. Thank you, Mr. Chairman.

Let me summarize briefly. We are all familiar with the general purposes of the GSP. It was at the outset intended to assist the economic development of the world's poorer countries by encouraging greater diversification and expansion of their production and exports.

I want to say today at the outset that this is not an altruistic program, but in fact is very much in the interest of not just the poor developing countries of the world, but of the United States and our own economic well being. We cannot overestimate the importance of the growth and development of poorer countries to the United States. The LDC's now purchase 40 percent of all that we export, more than Europe and Japan combined. They have become and remain the fastest growing markets for our products. Their annual rate of growth has been 12.5 percent since 1976, which is an absolutely spectacular rate of growth which I would imagine any company in the United States or our economy as a whole would welcome.

Now, that is in contrast with 9½-percent growth in exports to our traditional developed country markets. GSP has contributed to this growth by enabling those developing countries to earn increased foreign exchange which they have used to purchase U.S. goods and services. In so many words, GSP has spurred this expansion of trade both ways, not through costly one-way grants of aid, but through a system that encourages broad-based, sustained economic growth founded on the marketplace. In other words, GSP is not a development project. Rather, it is a system of opportunities which encourages developing countries to draw and build upon their own relative strengths.

It is important to remember during the debate that GSP imports do not represent a threat to our own economic interests. While these imports have increased from \$3 to \$8.4 billion during the life of the GSP program and cover 3,000 products, a study by the ITC determined that GSP imports have not had an appreciable effect on the U.S. market. These imports have been averaging one half of a percent or less of U.S. consumption.

While the program has had no adverse effect at the macro level, it is important to recognize that particular products at times may feel some impact of GSP imports. We have been responsive to these

problems. Through our annual product review procedures, we have tailored the coverage to reflect changing conditions of competition and any resultant changes in import sensitivity. In this regard, I believe that our product review has been very responsive to the concerns of U.S. producers and workers.

Many have noted with concern the fact that a limited number of GPS beneficiary countries have accounted for the majority of the program's benefits. This has occurred despite the operation of the program's competitive need limits, which have automatically excluded almost one-half of these top beneficiaries' trade from GSP eligibility.

In response to these concerns, and in keeping with our desire to integrate developing countries more fully into the international trading system, the administration strengthened its graduation policy in 1981. This action resulted in the removal of over \$1 billion in GSP benefits from the leading beneficiaries of the program in addition to the previously established statutory competitive need exclusions which now total over \$7 billion annually.

Let me note one additional fact before going to the new program: 19 other industrialized countries have found it in their interest to extend their own GSP program through 1990 or beyond.

We have sent to you a bill to renew the GSP program. I believe it represents a fair and balanced response to the legitimate interest of the GSP beneficiary countries and domestic workers and producers, many of whom have shared with us their views on the program's current operation and continuation.

We ask that you extend the GSP for a 10-year period. Further, we ask that the statutory authority for the program be modified in certain aspects in response to two general trends, first, the increasing competitiveness of many GSP products, and second, the increasing importance of developing country markets and U.S. exports.

We propose that graduation be made even more explicit through the establishment of lower competitive need limits for highly competitive products. These limits which would be set at 25 percent of the value of total U.S. imports of any GSP eligible product and \$25 million worth of import of any GSP eligible product, would be applied to products in which a country was found to be highly competitive after a general product review.

In this review, the President would consider the various factors required under current statutory and administrative procedures. One of these factors involves the extent to which a GSP beneficiary country has assured the United States of reasonable and equitable access to its markets. This factor will be considered not only with respect to the limitation of the benefits through the application of lower competitive need limits, but also with respect to a liberalization of benefits on certain products.

The administration proposes that the statute allow for the liberalization of competitive need limits on various products as a means of further inducing beneficiaries to provide significant access to their markets. In its market access considerations, we will examine not only GSP beneficiary country tariff and nontariff barriers to trade in goods and services, but also other trade restricting practices, such as performance requirements and inadequate protection of intellectual property rights.

In recent years, we have received an increasing number of complaints about such LCD barriers. Significant additional market opportunities exist for the U.S. exports to many key developing country markets. We need to tap this potential.

It is clear that the United States has much to gain from a GSP program restructured to help induce beneficiaries to liberalize their markets in a manner commensurate with their level of development.

Before concluding, I ask that you keep in mind the special needs of the least developed beneficiaries, a group of approximately 30 of the world's poorest countries. These countries do not possess resources and infrastructure required to export most of the products eligible for GSP treatment, and thus have often failed to realize appreciable benefit from the program.

Furthermore, in some instances they have been excluded from GSP treatment on eligible products because of the statutory competitive need limits. The administration requests that the President be authorized to waive competitive need limits applicable to products of least developed countries as a small but important step toward assisting their development process.

The GSP program has provided important opportunities for developing countries to diversify and expand their economies. This has been achieved without any significant adverse impact on the U.S. economy in terms of production, employment, or balance of payments. In fact, GSP duty-free imports have accounted for no more than 3 percent of total U.S. imports since the program began.

We have before us the opportunity to extend this GSP program in a manner that will further not only the program's laudable development objectives, but also the export goals of the U.S. producers. Operation of the GSP by the United States and other industrialized countries has demonstrated and will continue to demonstrate that trade can be an effective force for world economic growth.

I thank you for the opportunity to testify, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. Chairman, thank you for the opportunity to address the Trade Subcommittee on renewal of the U.S. Generalized System of Preferences (GSP). As you know, the GSP program will expire on January 3, 1985. I wish to share with you some of our thoughts concerning the role of the GSP in its first eight years of operation, as well as its potential contribution to U.S. economic interests during the next decade.

PURPOSE AND HISTORY

We are all familiar with the general purposes of the GSP. It is intended to assist the economic development of the world's poorer countries by encouraging greater diversification and expansion of their production and exports. This is accomplished by granting preferential duty-free treatment to many of their exports.

When the United States joined other industrialized countries in supporting the concept of a GSP in 1968, it was apparent that one of the major impediments to accelerated economic growth and development was the developing countries' inability to compete on an equal basis with developed countries in the international trading system. For many developing countries, export earnings constituted not only the primary source of investment funds needed for development but also for financing basic commodities essential to maintain existing standards of living. Through the extension of tariff preferences, developing countries could realize an increase in

exports and diversify their economies thereby, decreasing their dependence on foreign aid.

As initially conceived, GSP systems were to be: (1) temporary, unilateral grants of preferences by developed countries to developing countries; (2) designed to extend benefits to sectors of developing countries which were not competitive internationally; and (3) designed to include safeguard mechanisms to protect domestic industries sensitive to import competition from articles receiving preferential tariff treatment. In the early 1970's nineteen other members of the Organization for Economic Cooperation and Development (OECD) instituted GSP schemes.

Congress authorized the establishment of a U.S. GSP scheme with the passage of the Trade Act of 1974, the GSP's authorizing legislation. The Act gave the President broad authority to implement and administer a program that would contribute to the development process of developing countries while avoiding any harmful repercussions for domestic producers and workers.

The U.S. GSP was implemented in January 1976, with preferential duty-free treatment extended to 140 beneficiary developing countries on 2,700 products. Each product included in the original GSP list was carefully reviewed pursuant to statutory procedures and the requirement that import-sensitive articles be barred from eligibility.

This program, which has been refined over eight years of operation in response to changes in the competitive position of both beneficiary countries and U.S. producers, has been instrumental in promoting its development objectives. These objectives are not entirely altruistic, and that the United States has a critical stake in the strong economic development of GSP beneficiaries and thus a critical stake in the program.

The importance of trade to the economic well-being of the United States as well as developing countries cannot be overemphasized. Developing countries now purchase nearly 40 percent of U.S. exports—more than the EC and Japan combined. They are now the fastest growing markets for U.S. products, increasing at an average annual rate of 12.5 percent since 1976, as compared to the 9.6 percent growth recorded in our exports to traditional developed country markets. The GSP contributed to this growth by enabling developing countries to earn increased foreign exchange with which they in turn have purchased more U.S. goods and services.

The GSP spurred this mutual expansion of trade opportunities not with costly grants of aid, but through a system that encourages broad-based sustained economic growth based on the realities of the marketplace. The GSP is not a targeted development project; rather, it is a system of opportunities which encourages each developing country to draw and build on its own relative strengths.

During the debate on the renewal of the GSP it is important to remember that the GSP is a small program. GSP imports, which account for only 3 percent of total U.S. imports, do not represent a threat to U.S. economic interests. Despite the fact that GSP imports increased from \$3.0 billion in 1976 to \$8.4 billion in 1982, the GSP has not had any appreciable effect on imports' share of the U.S. market.

In a study released this May, the U.S. International Trade Commission concluded that GSP imports have averaged 0.5 percent or less of total U.S. consumption. For the seven major product sectors examined by the Commission, the largest GSP import penetration was only 2.1 percent. Disaggregating still further, the Commission found that only 12 of 650 commodity groups have witnessed a significant increase in import penetration as a result of GSP imports.

The International Trade Commission concluded that the absence of significant import growth in the vast majority of product areas was attributable to the substitution of GSP imports for imports from developed countries. For the limited instances in which GSP imports did contribute to increased import penetration, the increases were found to be attributable primarily to the inclusion of new items in the GSP, as opposed to a significant increase in actual imports of a specific product.

One of the principal strengths of the GSP program has been its ability to adjust, on a product-specific basis, to changing market conditions and the changing needs of producers, workers, exporters, importers and consumers. Through our annual product review procedures we have tailored the program's coverage to reflect changing conditions of competition and any resultant changes in import sensitivity. In this regard, our product review has been very responsive to the concerns of U.S. producers and workers. It has ensured that the GSP program does not adversely affect domestic interests.

Many Members of Congress are familiar with the GSP product review and have participated actively in it. In fact, the U.S. program is widely acclaimed as the most open and accessible donor country GSP program. Any interested party, whether he be a U.S. worker, manufacturer, farmer or importer or a beneficiary government

official or exporter can submit a petition requesting a modification in the list of articles eligible for GSP treatment.

The petitioning process is uncomplicated and straightforward. After a preliminary screening of petitions by the interagency committees, all interested parties are afforded the opportunities of testifying in public hearings and submitting written comments. While the product review is normally a ten-month process, we have acted on an expedited basis in several instances where more immediate consideration was warranted.

As a result of our product review procedures, 31 products with GSP trade valued at \$0.6 billion have been removed from duty-free treatment. Approximately 300 products, with GSP trade valued at \$1.3 billion, have been added to the GSP list. One-third of these product additions have consisted of agricultural products of special interest to less developed beneficiaries. Nonetheless, GSP imports of agricultural products, almost half of which consist of sugar, account for only 9 percent of total GSP imports.

Some improvements have been made to the administration of the product review in order to provide greater predictability to U.S. business utilizing the GSP. Establishment of a GSP Information Center and early notification of changes to the list of eligible articles have improved the program to the mutual benefit of foreign and domestic interests.

Many have noted with concern the fact that a limited number of GSP beneficiary countries account for the majority of the program's benefits. This has occurred despite the operation of the program's competitive need limits, which automatically exclude almost one-half of these top beneficiaries' trade from GSP eligibility.

In response to these concerns and in keeping with our desire to integrate developing countries more fully into the international trading system, the administration strengthened its graduation policy in 1981. As outlined in the President's "Report to Congress on the First Five Years' Operation of the GSP," the Administration began graduating beneficiaries from GSP eligibility on a product-by-product basis. Graduation decisions have been based on a consideration of three factors: the beneficiary's general level of development; its competitiveness with respect to the particular product; and the overall economic interests of the United States, including the import sensitivity of U.S. producers and workers.

As a result of this policy, \$443 billion in GSP trade was graduated in 1981, \$651 million in 1982, and \$900 million earlier this year. The seven leading beneficiaries of the GSP have been affected by graduation on 131 different products. It is important to remember that these exclusions are over and above the statutory competitive need exclusions, which now total over \$7 billion annually in over 200 product categories.

Before addressing our goals in a renewed GSP program, let me note that nineteen other industrialized countries have found it in their interest to extend their GSP programs through 1990 or beyond. These countries have realized tangible benefits from their programs, in such forms as increased trade and trade-related jobs, improved foreign relations and greater consumer benefits. In short, most of the industrialized world has made a commitment to GSP programs because they offer important benefits at little or no cost.

The Administration has transmitted for your consideration a bill to renew the GSP programs. I believe that this bill represents a fair and balanced response to the legitimate interests of beneficiary developing countries and domestic producers and workers, many of whom have shared with us their views on the program's current operation and continuation.

We are asking Congress to extend the U.S. GSP for a ten-year period. We also are asking that the statutory authority for the program be modified in certain aspects in response to two general trends: the increasing competitiveness of many GSP products and the increasing importance of developing country markets to U.S. exports.

The Administration is now proposing that graduation be made even more explicit through the establishment of lower competitive need limits for highly competitive products. These limits, which would be set at 25 percent of the value of total U.S. imports and \$25 million, would be applied to products in which a country was found to be highly competitive after a general product review. In this review, the President would consider the various factors required under current statutory and administrative procedures.

One of these factors involves the extent to which a beneficiary country has assured the United States of reasonable and equitable access to its markets. This factor will be considered, not only with respect to the limitation of benefits through the application of the lower competitive need limits, but also with respect to a liber-

alization of benefits on certain products. The Administration proposes that the statute allow for the liberalization of competitive need limits on various products as a means of further inducing beneficiaries to provide significant access to their markets.

In its market access considerations, the Administration will examine not only beneficiary country tariff and non-tariff barriers to trade in goods and services, but also other trade-distorting practices such as performance requirements and inadequate protection of intellectual property rights. In recent years we have received an increasing number of complaints about such LDC barriers. Significant additional market opportunities exist for U.S. exports to many key developing country markets. We need to tap this potential. It is clear that the United States has much to gain from a GSP program restructured to help induce beneficiaries to liberalize their markets in a manner commensurate with their level of development.

Before concluding, I also ask that Congress keep in mind the special needs of the least developed beneficiaries, a group of approximately 30 of the world's poorest countries. These countries do not possess the resources and infrastructure required to export most of the products eligible for GSP treatment and thus have often failed to realize an appreciable benefit from the program. Furthermore, in some instances they have been excluded from GSP treatment on eligible products because of the statutory competitive need limits.

The Administration proposes that the President be authorized to waive competitive need limits applicable to products of the least developed countries as a small but important step toward assisting their development process. While such waivers would have limited practical effect in the immediate future, they could provide an important incentive for longer-term investment in the economies of the least developed countries.

CONCLUSION

The GSP program has provided important opportunities for developing countries to diversify and expand their economies. This has been achieved without any significant adverse impact on the U.S. economy in terms of production, employment of balance of payments. In fact, GSP duty-free imports have accounted for no more than 3 percent of total U.S. imports since the program began.

We have before us the opportunity to extend the GSP in a manner that will further not only the program's laudable development objectives, but also the export goals of U.S. producers. Operation of the GSP by the United States and other industrialized countries has demonstrated—and will continue to demonstrate—that trade can be an effective force for world economic growth.

Chairman GIBBONS. Thank you, Ambassador Brock.
Secretary Dam.

STATEMENT OF HON. KENNETH W. DAM, DEPUTY SECRETARY OF STATE, U.S. DEPARTMENT OF STATE

Mr. DAM. Thank you, Mr. Chairman.

I have submitted to you a statement which I will cover only a part of.

Chairman GIBBONS. All of your statements will be included in the record.

Mr. DAM. Thank you.

Ambassador Brock has covered the proposal that we have submitted to you, and many of the economic interests we have involved. I would like to emphasize some of the foreign policy aspects.

As he said, the United States does not act alone in providing duty-free entry to products from developing countries. Nine years ago, during the debate of the Trade Act of 1974, which authorized our GSP program, the administration pointed out that in the area of international trade our approach has been to act in concert with all major trading nations, and that is true today. All of our industrial partners recognize that steps are required to expand the flow

of trade between developed and developing countries. The need for positive action to open world markets for exports from developing countries has long been recognized. The GATT contract included in part 4 of GATT calls for such action by the developed country members.

Thereafter, in the late 1960's, we and other developed OECD member countries agreed to institute preferential treatment for developing country exports. In 1971, the GATT contracting parties agreed to waive for 10 years the most-favored-nation requirement of GATT to the extent necessary to permit such preferential treatment. The legal basis for GSP under GATT has been incorporated in the GATT agreements on the framework for the conduct of international trade negotiated in the Tokyo Round of the late 1970's.

By 1976, with the inception of GSP in the United States, 19 OECD members were granting preferences to developing countries. If we look at the OECD programs in the aggregate, we see 41 percent of developing country imports enter these markets duty-free. An additional 18 percent of developing country imports are eligible for either duty-free treatment or for duty reductions under the various national GSP programs.

Our OECD partners are committed to a continuation of GSP. With the exception of the United States and Canada, OECD donors have either already renewed their programs into the 1990's or have open-ended programs with no expiration date. The European Community and Japan, which along with the United States provide over 85 percent of global GSP benefits, have already extended their GSP programs for a second decade. Canada is expected to renew its program by July of next year. The European Community in particular has indicated the importance it attaches to a continuation of the United States GSP program as a form of burden sharing.

There is good reason why we and the OECD countries have supported GSP programs. GSP is the major trade instrument designed to help developing countries help themselves. GSP increases developing country access to developed country markets, thereby expanding developing country export earnings, accelerating their growth, and strengthening their ability to meet international financial obligations. At the same time, the United States will benefit, for a large share of developing country export earnings return to the United States in the form of additional purchases here.

Mr. Chairman, I could analyze further the beneficial linkage between increased imports for developing countries and growth and prosperity in the U.S. economy. Ambassador Brock, however, has already cogently covered the economics of GSP. Let me turn more broadly to the foreign policy aspects.

First of all, GSP is an integral part of our overall effort to encourage self-reliant economic development through trade, not aid. As I said at the recent UNCTAD meeting in Belgrade, for all countries, trade is the dominant source of external resources, and for developing countries trade is the dominant impetus to growth. GSP renewal is an essential element of the program I outlined in Belgrade to increase trade, promote growth, and provide a foundation for the resolution of many of our present problems.

Second, GSP has been the only trade policy instrument we have which is specifically intended to increase the access of developing

countries toward our markets. The beneficiary countries view GSP renewal as an important indicator of the seriousness with which the U.S. views its stated policy of encouraging self-sufficient economic development.

Third, by promoting export earnings, a renewed GSP program will enable developing countries to adopt more outward looking economic policies, contributing to the U.S. objective of improving and maintaining the global economic system.

The GSP is an effective way of demonstrating to the developing world the benefits of preserving free and open markets.

Fourth, GSP plays a significant role in promoting the economic well being and security of developing countries such as the ASEAN nations which are vital to our national security. In 1982, U.S. trade with ASEAN topped \$20 billion. Our exports to ASEAN as a whole nearly equaled our exports to the United Kingdom, our fourth largest export market. A key to ASEAN's economic success and to its importance as a market for U.S. exports is its ability to sell to us. GSP preferences coupled with our relatively open markets have helped significantly. Since the inception of the program, ASEAN's GSP shipments to the United States have grown impressively from \$167 million in 1976 to \$814 million in 1982, an annual growth rate of 30 percent.

Singapore, Thailand, and the Philippines, all of which are key to our regional security interests in Southeast Asia, are ranked among the top 15 beneficiaries of GSP.

Finally, Mr. Chairman, renewal of GSP is consistent with the Williamsburg commitment to "take into account and exploit relationships between growth, trade, and finance in order that recovery may spread to all countries, developed and developing alike." We realize that GSP is a relatively small instrument in our trade policy tool kit. In 1982, the value of GSP imports amounted to only 3.4 percent of the value of total U.S. imports, and slightly over 8 percent of the value of imports from developing countries.

Nevertheless, failure to renew the program would have high political cost. The developing countries will see it as a signal of U.S. indifference to their problems, and as a rebuff of their efforts to develop through expanded trade. Our developed country partners would view our failure to renew as evidence that the United States is no longer willing to do its part in the shared task of contributing to world development.

In short, Mr. Chairman, we see GSP renewal as essential to our North-South relations and to our relations with our major industrial trading partners. By preserving open markets and expanding trade with developing countries, we and other industrial nations will nurture Third World economic growth even as economic recovery in the west proceeds and strengthens over the coming years.

Thank you very much, Mr. Chairman.

[The prepared statement follows.]

STATEMENT OF HON. KENNETH W. DAM, DEPUTY SECRETARY OF STATE

Thank you for the opportunity to testify on behalf of the Administration's proposal to renew the Generalized System of Preferences for an additional ten years.

Mr. Chairman, two months ago Secretary Shultz appeared before the House Subcommittee on Foreign Operations to testify on behalf of the Administration's Secu-

ity and Economic Development Program. At that time he argued that our security and economic assistance programs aimed at developing countries are essential instruments of our foreign policy and are directly linked to the national security and economic well-being of the United States. Today we turn our attention to the one trade policy instrument we have that is specifically related to developing countries, the Generalized System of Preferences.

The countries of the Third World have increasingly assumed center stage in the unfolding drama of global peace, prosperity and security. The Third World as a whole has been expanding more rapidly than the United States and Europe for the past 15 years. As developing countries have grown, they have become increasingly important, as customers and suppliers, in our markets and in the markets of our industrial partners.

Since 1975, the first year of the GSP program, the developing countries have accounted for nearly half the growth in total U.S. exports, which increased from \$107 billion in 1975 to \$212 billion in 1982. In 1982, developing countries purchased \$86 billion or about 40 percent of our exports—more than the quantity bought by Western Europe and Japan combined. At this moment, approximately one out of every twenty workers in our manufacturing plants and one out of every five acres of our farmland produces for Third World markets.

On the other side of the ledger, the developing countries supplied over 40 percent, or about \$100 billion, of the goods we imported in 1982 for our factories and consumers. Although we are richer in minerals than most industrial countries, the Third World supplies more than half the bauxite, tin, and cobalt used by our industries. For some natural products, such as rubber, cocoa, coffee, and hard fibers, the developing countries supply everything we use.

But the global recession in the past two years has brought about a pause in the growth of developing country export earnings. World trade has stagnated, and actually declined in volume in 1982, the first time it has done so in 25 years. The poorest developing countries have been hit hard by declining non-oil commodity prices, which fell by 20 percent from 1980 to 1982. As a result, most non-oil exporting developing countries have experienced an erosion in their terms of trade.

The solution to the problems faced by all developing countries, and especially the high-debt developing countries, is renewed growth and revived export earnings. Recovery in the West will contribute to such a revival; recovery coupled with well-targeted trade policy instruments, such as GSP, will help make that revival permanent.

We have never been alone in providing duty-free entry to products from developing countries. Nine years ago, during the debate over the Trade Act of 1974 which authorized our GSP program, the Administration pointed out that in the area of international trade our approach has been to act in concert with all major trading nations. This is no less true today. All of our industrial partners recognize that steps are required to expand the flow of trade between developed and developing countries.

The need for positive action to open world markets for exports from developing countries has long been recognized. The GATT Contracting Parties included in Part IV of GATT a call for such action by the developed country members. Thereafter, in the late 1960's, we and other developed OECD member countries agreed to institute preferential treatment for developing country exports. In 1971, the GATT Contracting Parties agreed to waive for ten years the most-favored nation requirements of GATT to the extent necessary to permit preferential tariff treatment for developing countries. The legal basis for GSP under GATT has since been incorporated in the GATT Agreements on the Framework for the Conduct of International Trade, negotiated in the Tokyo Round of trade negotiations in the late 1970's.

By 1976, with the inception of GSP in the United States, nineteen OECD members were granting preferences to developing countries. If we look at the OECD programs in the aggregate, we see that 41 percent of developing country imports enter these markets duty-free. An additional 18 percent of developing country imports are eligible for either duty-free treatment or for duty reductions under the various national GSP programs.

Our OECD partners are committed to a continuation of GSP. With the exception of the United States and Canada, OECD donors have either already renewed their programs into the 1990's or have open-ended programs with no expiration date. The European Community and Japan, which along with the United States provide over 85 percent of global GSP benefits, have already extended their GSP programs for a second decade. Canada is expected to renew its program by July of next year. The European Community in particular has indicated the importance it attaches to a continuation of the United States GSP program as a form of burden-sharing.

There is good reason why we and the other OECD countries have supported GSP programs. GSP is the major trade instrument designed to help developing countries help themselves. GSP increases developing country access to developed country markets, thereby expanding developing country export earnings, accelerating their growth, and strengthening their ability to meet international financial obligations. At the same time, the United States will benefit, for a large share of developing country export earnings return to the United States in the form of additional purchases here.

Mr. Chairman, I could analyze further the beneficial linkage between increased imports from developing countries and growth and prosperity in the U.S. economy. Ambassador Brock, however, has already cogently covered the economics of GSP. Therefore, I should like to outline in broad foreign policy terms the importance the Administration attaches to GSP renewal:

First of all, GSP is an integral part of our overall effort to encourage self-reliant economic development through trade, not aid. As I said, at the recent United Nations Conference on Trade and Development (UNCTAD) in Belgrade, "For all countries, trade is the dominant source of external resources, and for developing countries trade is the dominant impetus to growth." GSP renewal is an essential element of the program I outlined at Belgrade to "increase trade, promote growth, and provide a foundation for the resolution of many of our present problems."

Second, GSP has been the only trade policy instrument we have which is specifically intended to increase the access of developing countries to our markets. The beneficiary countries, many of which like Mexico, the Philippines and South Korea have long-standing ties to the United States, view GSP renewal as an important indicator of the seriousness with which the United States views its stated policy of encouraging self-sufficient economic development.

Third, by promoting export earnings, a renewed GSP program will enable developing countries to adopt more outward-looking economic policies, contributing to the U.S. objective of improving and maintaining the global economic system. GSP is an effective way of demonstrating to the developing world the benefits of preserving free and open markets.

Fourth, GSP plays a significant role in promoting the economic well-being and security of developing countries, such as the ASEAN nations, which are vital to our national security. In 1982, U.S. trade with ASEAN topped \$20 billion dollars. Our exports to ASEAN as a whole nearly equalled our exports to the United Kingdom, our fourth largest export market.

A key to ASEAN's economic success and to its importance as a market for U.S. exports is its ability to sell to us. GSP preferences coupled with our relatively open markets have helped significantly. Since the inception of the program, ASEAN's GSP shipments to the U.S. have grown impressively, from \$167 million dollars in 1976 to \$814 million dollars in 1982, and annual growth rate of 30 percent. Singapore, Thailand and the Philippines, all of which are key to our regional security interests in Southeast Asia, are ranked among the top 15 beneficiaries of GSP.

Finally, Mr. Chairman, renewal of GSP is consistent with the Williamsburg commitment to "take into account and exploit relationships between growth, trade and finance, in order that recovery may spread to all countries, developed and developing alike." We realize that GSP is a relatively small instrument in our trade policy tool kit: in 1982, the value of GSP imports amounted to only 3.4 percent of the value of total U.S. import, and slightly over 8 percent of the value of imports from developing countries. Nevertheless, failure to renew the program will have high political costs: the developing countries will see it as a signal of U.S. indifference to their problems and as a rebuff of their efforts to develop through expanded trade; our developed country partners would view our failure to renew as evidence that the United States is no longer willing to do its part in the shared task of contributing to world development.

In short, we see GSP renewal as essential to our North/South relations, and to our relations with our major industrial trading partners. By preserving open markets and expanding trade with developing countries we, and other industrial nations, will nurture Third World economic growth even as economic recovery in the West proceeds and strengthens over the coming years.

Chairman GIBBONS. Thank you.

Mr. Tracy.

STATEMENT OF HON. ALAN T. TRACY, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. TRACY. Thank you, Mr. Chairman.

I, too, would like to submit my testimony for the record, and simply make a summary statement. I think everything that Ambassador Brock has said about this program applies equally well to the special case of U.S. agriculture. U.S. agriculture is heavily dependent upon its export markets.

I think, you know, that we export production of 2 acres out of every 5 in this country, and agriculture accounts for one-third of the total tonnage of exports shipped out of this country. So markets are very important to U.S. agriculture, and developing countries in 1982, accounted for about 35 percent of our total agricultural exports. Of course, if you look at the developed countries, and look to the future for where growth can be, the developed countries are really a saturated market for food products in many ways, but the developing countries have the highest population growth; and they also have the greatest potential for spending any increased income that they might come by on food products.

So, we feel that the growth potential for agricultural exports in developing countries is even more important than their current position would indicate. So, of course, how are they going to grow? They have to be able to develop in order to have the income to spend on additional food needs, imported or domestically produced, and we feel that this program is an important part of that development process.

I think it needs to be viewed by the agricultural interests in this country in that light. At the same time, we are very sensitive to the special concerns of U.S. agriculture to imports in this country. There are many commodities that are particularly sensitive to sudden flows into this market from abroad. I think of winter vegetables as a clear example. I do think that this program takes into account those concerns. I think the administration of it has been sensitive to those concerns, and the modifications proposed take into account those concerns. One example is the increased emphasis on market access in the new legislation which again is extremely important to agriculture.

I have laid out in the testimony a couple of the specific ways we feel this new proposal reflects what we have learned from our experience in the past, and the modifications of this new proposal, I think, make it even more sensitive to those legitimate concerns of domestic U.S. agricultural interests.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF ALAN T. TRACY, DEPUTY UNDER SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss the Generalized System of Preferences as it relates to U.S. agriculture.

Many American farmers are skeptical of the GSP program. They view the preferential tariff treatment provided under GSP as offering unwarranted competition for their own products, and it is difficult for them to see what benefits the program has for the United States.

The developing countries, of course, consider the preferential tariffs under GSP, which is offered by the United States and 19 other developed countries, to be a major factor encouraging economic development. As they develop and improve their living standards, they tend to become better customers for U.S. agricultural exports. Korea serves as an example; it grew from almost nothing to our seventh largest customer in fiscal 1982. In fact, developing countries bought about \$14 billion in agricultural products from us in fiscal 1982, and they will provide the most important growth area for us in the future.

Because of the importance of agriculture to the developing countries involved, it has been necessary for the United States to include agricultural products in the GSP program, but the coverage has been limited.

There are approximately 3,000 product descriptions in the U.S. tariff code that are subject to GSP, and about 400 of these are agricultural.

The value of the 400 agricultural items imported under GSP in 1982 totaled \$721 million, which is less than 5 percent of total U.S. agricultural imports.

Ten items accounted for two-thirds of the GSP imports. Sugar was the leader, representing 40 percent of the total value, despite low sugar prices. Other items in the top ten for agriculture were inedible molasses, cigars, canned corned beef, ale and beer, miscellaneous edible preparations, confectioneries, castor oil, unsweetened cocoa, and cookies and cake.

Products which cause the most concern to U.S. agricultural producers are either not included in the program, or they are handled in a special way.

For example, the producers of asparagus, olives, tomatoes, cucumbers and other winter vegetables and citrus fruit are concerned about the prospect of duty-free competition in an already highly competitive business, and especially about this type of competition from nearby countries.

The Administration has taken account of these concerns in administering the GSP program. As a result, those products are not covered by GSP except for seasons when U.S. production is not on the market, or GSP is extended only when the principal supply country already has the lion's share of U.S. imports and it is therefore ineligible for duty-free treatment.

Mexico, for example, is a serious competitor for U.S. producers of several winter vegetables. These products are in the GSP program, but Mexico is excluded from GSP treatment on those products because it has more than 50 percent of the U.S. import market for them.

The Administration proposal for renewal of the GSP program would make some changes that would be of interest and benefit to U.S. agricultural producers.

The most important aspect of the Administration's GSP proposal would result in the termination of GSP treatment for certain identified products of advanced developing countries that have proved their ability to compete in the U.S. market, unless they can show that they are providing specific benefits to U.S. exports to their markets.

GSP eligible countries object to the graduation provision, but they must recognize that GSP is a unilateral tariff concession of the United States rather than something we "owe" them.

In determining eligibility for GSP, the President would be directed to consider the extent to which beneficiary countries provide access for U.S. products.

The Administration also expects to tighten up the procedures by which it takes account of the sensitivity of U.S. producers to preferential import competition.

These procedures are not part of the legislative proposal and are still under review. They would specify more precisely situations which will be recognized as sensitive and the conditions under which the Administration would consider petitions to add new products to the program.

The Department believes that these changes would reduce many of the concerns that have been expressed by U.S. agricultural producers.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

Chairman GIBBONS. Thank you.

And now, from the Department of Labor, Mr. Searby.

STATEMENT OF HON. ROBERT W. SEARBY, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF LABOR

Mr. SEARBY. Thank you, Mr. Chairman.

I would like to summarize my submitted testimony, emphasizing the effects of the program and of the renewal proposal on American workers.

Chairman GIBBONS. Could you speak louder?

Mr. SEARBY. Critics of the GSP program allege that the program has had an adverse impact on U.S. workers. It is important to put this issue in perspective. Though U.S. duty-free imports from GSP countries have grown slightly faster than overall imports, they are still a small portion of the overall total. In 1976, U.S. imports entering dutyfree under GSP were valued at \$3.2 billion or 3.6 percent of total U.S. nonpetroleum imports in that year. By 1982, duty-free imports under the program had increased to \$8.4 billion, but remained only 4.4 percent of total non-petroleum imports.

One reason that GSP imports are so small is that many products for which GSP beneficiaries are major suppliers by statute are excluded from the program because of their import sensitivity. Major exclusions listed in section 503(c)(1) of the Trade Act of 1974 include textiles, of which developing countries are major exporters, shoes, watches, many import-sensitive glass, steel, and electronic products. These exclusions would be maintained in the renewal program. In addition, any product which receives import relief under section 201, the escape clause provision, is automatically removed from the GSP eligible list.

Another way to look at the issue is to ask how much lower would imports from GSP beneficiary countries have been if the program did not exist. Our preliminary research indicates that GSP-eligible items would have been lower by 11 percent had GSP not been in place.

While GSP imports are a small percentage of overall imports, they make up even a smaller portion of consumption. The USITC reported that GSP imports accounted for about one-half of 1 percent of the apparent consumption of goods in the U.S. economy during the period 1978 through 1981. Undoubtedly, the imports of GSP eligible articles have been significant to certain manufacturing categories such as electronic products, parts for office machines, and auto parts, including engines.

It is apparent that the impact of GSP on the total U.S. economy and therefore also on employment has been modest. Unemployment resulting from increased imports under GSP is more likely to be a question involving a specific competitive situation in defined markets.

The administration's proposal maintains the GSP annual review process as well as other import safeguard measures which are designed to deal with these particular instances of import sensitivity. The administration proposal to cut back preferential duty-free treatment from competitive products, that is, the graduation element of the proposal, should also have the effect of moderating any potential adverse effect on U.S. workers.

The more competitive countries have a choice, or will have a choice. They may maintain or perhaps increase their level of preferential treatment on items of interest to them, but only in return for their own trade liberalizing efforts. The market access provisions of the President's proposal can be important for U.S. workers. For example, the advanced GSP beneficiary countries are particu-

larly important markets for U.S. exports. Over the past 3 years, U.S. exports to Taiwan have been valued at over \$4 billion annually. U.S. exports to South Korea have exceeded \$4.4 billion, and for Hong Kong, the figure is \$2.3 billion. Mexico purchased over \$11 billion of U.S. exports in 1982.

In summary, I would repeat that overall the impact of the GSP program on American workers has been small. The administration's renewal proposal would have the added benefit of expanded U.S. exports, and therefore jobs for Americans. In particular, instances of import sensitivity have been and should continue to be handled through the annual product review process.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF ROBERT W. SEARBY, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF LABOR

Good morning. I am here today to address the Administration's proposal for the renewal of the Generalized System of Preferences. The GSP program, implemented in 1976, has fostered U.S. foreign policy goals and contributed to the long-term economic development of many developing countries. However, the program has not been uncontroversial. Some changes were implemented following the five-year review to address various criticisms. We recognize that there are many who would favor more drastic actions. It is my belief that the renewal proposal contains further improvements which, with careful implementation, can continue to aid those countries which need duty-free entry into our market to be competitive while, at the same time, promoting the interests and welfare of American workers.

The basic reasons for my position are:

GSP imports have been, and probably will continue to be, a very small portion of total U.S. imports.

The new program carries U.S. graduation policy one important step further. Benefits from GSP for the more advanced developing countries will be linked not only to their level of development but also to increased access to their markets.

Exports resulting from the opening of these markets should provide jobs for American workers.

Present safeguard procedures under which import sensitive products are removed from GSP will be maintained.

Let me explain further:

IMPACT OF THE GSP

Critics of the GSP program allege that the program has an adverse impact on U.S. workers. It is important to put the issue in perspective. Though U.S. duty free imports from GSP countries have grown slightly faster than overall imports, they are still a small portion of U.S. imports. In 1976, U.S. imports entering duty-free under GSP were valued at \$3.2 billion or 3.6 percent of total U.S. non-petroleum imports in that year. By 1982, duty-free imports under the program had increased to \$8.4 billion but remained at only 4.4 percent of total non-petroleum imports.

One reason that GSP imports are so small is that many products for which GSP beneficiaries are major suppliers are statutorily excluded from the program because of their import sensitivity. Major exclusions listed in section 503c(1) of the Trade Act of 1974 are significant for the commerce of many GSP beneficiaries. For example, U.S. imports of all textile products comprised approximately 15 percent of total non-petroleum imports from the beneficiaries in 1982. However, only about two percent of U.S. imports of these articles from the beneficiaries received duty-free treatment under the GSP. Exclusions for footwear prohibit duty-free treatment on another class of import-sensitive items of which the GSP beneficiaries are major suppliers. Other products listed in the 1974 Act include watches and import sensitive glass, steel, and electronic products. These exclusions would be maintained in the renewed program. In addition, any product which receives import relief under section 201 of the 1974 Act (escape clause) is automatically removed from the GSP eligible list.

We should recognize that even if the GSP program didn't exist, we would still have trade in GSP eligible categories from beneficiary countries. Thus, the important question is how much lower would imports from GSP-beneficiary countries

have been if the program didn't exist? We have been looking at this question and our preliminary research indicates that imports of GSP-eligible duty-free items in 1982 would have been lower by 11 percent had GSP not been in place.

A program which resulted in an estimated increase of 11 percent in a basket of imports which comprised 4.4 percent of all U.S. non-petroleum imports is not large in the aggregate. Information supplied by the USITC suggests that GSP imports have accounted for about one-half of one percent of the apparent consumption of goods in the U.S. economy during the period 1978 through 1981. The USITC also found that only in markets for Miscellaneous Manufacturers did GSP imports account for 2 percent or more of the value of U.S. consumption. In the other major sectors examined, GSP imports seldom accounted for as much as one-half of one percent of U.S. consumption.

Undoubtedly, imports of GSP eligible articles have been significant in certain manufacturers such as electronic products, parts for office machines, and auto parts, including engines. However, in no case did such imports comprise over 25 percent of the value of total imports on any "major group" of the Standard Industrial Classifications in 1982. GSP imports exceeded 10 percent of the total value of imports in only 6 of the 20 major groups for manufacturing products in that year.

It is apparent that the impact of GSP on the total U.S. economy and therefore also on employment has been modest. Unemployment resulting from increased imports under GSP is more likely to be a question involving specific competitive situations in defined markets. The Administration's proposal maintains the GSP annual review process as well as other import safeguard measures which are designed to deal with these particular instances of import sensitivity.

ADMINISTRATION APPROACH TO GRADUATION

The United States has been a strong advocate of graduation for many years. "Graduation" refers to the phasing out and eventual elimination of differential treatment for the more economically advanced developing countries and the progressive alignment of their trade policies with the generally applicable rules of the international trading system. Graduation limitations on preferential treatment have affected major users of GSP preferences since the system was implemented in 1976. The 1981 decision to increase graduation of the top beneficiaries of the GSP program was a further extension of our graduation policy.

Under current practice the President may use his discretionary authority to limit duty-free treatment for imports of specific items after consideration of certain economic factors. This often results in some redistribution of GSP duty-free imports to other beneficiaries while U.S. imports of the product from the excluded beneficiary continue to increase. This continued import increase is evidence that these countries are competitive in certain exports to the United States. It is now time to take the next step.

The Administration's proposal to cut back preferential duty-free treatment for competitive products is a logical extension of our graduation policy. Under the proposal, there would be no limits on GSP treatment for eligible products from the least developed countries. The more competitive countries have a choice. They may maintain or perhaps increase their levels of preferential treatment on items of interest to them but only in return for their own trade liberalizing efforts.

The market access provisions of the President's proposal can be important for U.S. workers. GSP beneficiaries have taken a significant and increasing share of U.S. exports in recent years. The value of U.S. exports to GSP beneficiary countries grew from \$43.4 billion in 1978 to \$71.1 billion in 1982 while the beneficiaries' share of total U.S. exports increased from 28 to 32 percent. Leading export commodities during that period were wheat, corn, soybeans, and cotton. Leading exports of manufacturers included chemicals, motor vehicle parts, aircraft, and electrical and electronic instruments.

The advanced GSP beneficiary countries are particularly important markets for U.S. exports. For example, over the past three years U.S. exports to Taiwan have been valued at over \$4 billion annually. Since 1980, U.S. exports to South Korea have exceeded \$4.4 billion, for Hong Kong the figure is \$2.3 billion. The importance of Mexico for U.S. exports is well known. Mexico purchased over \$11 billion of U.S. exports in 1982.

In addition, trade policies and practices of the advanced GSP beneficiaries which were less significant when the U.S. program began are now in need of change. If GSP preferential treatment can modify some of these practices which adversely affect U.S. commerce then this is a constructive approach to graduation which would benefit the United States.

As I noted early in my testimony, the Administration's proposal has the potential to generate economic benefits for both the developing countries and the United States. Achieving appropriate balance will require careful but prompt implementation.

Chairman GIBBONS. We have to go vote. We will be right back. [Whereupon, a brief recess was taken.]

Mr. Russo [presiding]. The committee will resume.

Mr. Ambassador, has the panel finished their statements?

Ambassador BROCK. Yes, we have.

Mr. Russo. Under advice of the chairman, I will ask my questions while they are voting.

In hearings such as this, Mr. Ambassador, one of the things that I find interesting in reading much of the testimony and your statement it seems it conflicts a little bit with some of the other testimony I spent last night reading. I guess in a situation like this you wish the advocates were sitting next to each other so when statements are made by one side the other side could comment, and you would hear the best arguments back and forth. So I am going to play devil's advocate with you because there are questions regarding some of the statements that I read that I would like to ask and get your response to.

One of my concerns is the comment made by the AFL-CIO which states that the intended beneficiaries of GSP have not in any real way been helped. Since its inception, the program has provided the greatest amount of assistance to those countries that need it the least. In 1979, the top 15 beneficiary developing countries accounted for 89 percent of all of GSP duty-free imports. Another 120 countries, 11 percent, and the top 3 beneficiary developing countries accounted for 50 percent of all GSP imports.

Is the GSP really working when it benefits just three countries when their own trade beyond the GSP category is very strong, and they also enjoy a trade surplus with the United States? How do we deal with countries that are reaping so much of the benefit of GSP when its purpose was to help needy developing countries increase their trade? Why is the concentration so heavy?

Ambassador BROCK. Well, you can take the top 3, top 5, top 7, top 10, and the same data applies in any situation. Eighty-five percent of business is going to be done with about 15 percent of the numerical quantity, first of all because they are more developed; second, they have a more competitive economy; and frankly, in most cases they have a better infrastructure and a better political system that allows them to have a market process.

Mr. Russo. Shouldn't one conclude that these countries should be graduated, thus helping some other countries who need GSP more?

Ambassador BROCK. Only if you think we ought to be doing more business with Japan, because that is who would benefit if you graduate them out. The benefits of these countries would not be distributed to the poorer but to the richer. They are the ones that would take advantage of the absence of the competition.

The problem that the very poor countries have is the absence of historical foundation, the absence of infrastructure in terms of roads, sewer facilities, electricity, things like that, the absence of a viable economic system.

So it is true that the least developed countries only exported about \$50 million worth of GSP product to us; but if you took away the benefits from Korea, for example, it would do absolutely nothing for the least developed. They would not get any of that. It would go to the countries that are simply there and ready for the competition.

Mr. Russo. These countries have about a \$5 billion trade surplus with us. They have a very strong economic base without GSP. Doesn't that indicate that these countries have benefited sufficiently from GSP? They now have strong economies that are more industrialized and more politically stable. Are we not supposed to try to help those other countries develop?

Ambassador BROCK. Yes.

Mr. Russo. Well, how can those other countries develop if the top three get 50 percent of the benefits?

Ambassador BROCK. You are making the assumption, as others have, that these countries are in some way getting some unfair advantage over the least developed.

Mr. Russo. Part of what they are receiving results from the advantage they have over our industries. They are putting our people out of work because of the kind of benefits we give them under GSP. That is what concerns me.

Ambassador BROCK. No. That simply does not happen and has not happened. And every year we look at every product on this list to see whether in fact it is having a disadvantageous effect. We listen to our private sector advisers. We talk to other agencies and other businesses, labor people, and those considerations are carefully made every single year. There is none of that.

Mr. Russo. Let me follow up. On page 2 of their testimony they say:

The Trade Act of 1974 states that import-sensitive items such as textiles, apparel, electronic articles, steel articles, footwear, glass and any other articles the President determines to be import sensitive in the context of GSP should not be granted duty-free status.

It says:

Despite these restrictions, the GSP eligible list continues to contain a wide array of products that are clearly import sensitive: tankers and other buildings, bridges of iron or steel, telephone apparatus and parts, electronic equipment of various kinds, motor vehicles designed for special services or functions, aircraft parts.

I can list them. I mean obviously you are doing the best you possibly can, but my problem is that when we are having so many problems with our own industrial sector and such a large trade deficit, why should countries who have a trade surplus with us continue to get GSP preferences?

Ambassador BROCK. I cannot imagine a worse trade policy than to start saying we are going to evaluate our program toward you on the basis of whether or not we have a surplus or a deficit with you. If we did that, we would find ourselves very quickly in some difficulty with Europe where we have a \$7 to \$11 billion surplus depending upon any given year.

Mr. Russo. You and I are not communicating, Mr. Ambassador. GSP was established for a specific reason, to give specific treatment for a specific country.

Now, I am saying that these three countries are more industrialized. They can compete. They have proven they can compete in the world market. Why are we continuing to give them special treatment? That is all I am asking. Why do they need to continue to get GSP when they can compete?

Ambassador BROCK. Because it is in our interest to do business with these countries. We sell them a heck of a lot.

Mr. Russo. Is not strengthening our own industrial base in this country, is that not in our interest, too?

Ambassador BROCK. And you think the absence of competition makes us stronger?

Mr. Russo. I am not saying that the absence of competition makes us stronger.

Ambassador BROCK. That is what you are suggesting.

Mr. Russo. I am having a tough time figuring out why we should be so generous to other countries when we are treating our own people so poorly. Maybe you are not aware of it, but the steel industry has problems, the auto industry has problems, the textile industry has problems. And all we keep getting is delays and delays and everybody expressing concern about trade.

What about fair trade for our own people in our own country? That is a problem we have got to face in this Congress.

Ambassador BROCK. We have taken a number of actions to deal with unfair trading practices. Any individual or any group in this country that wants to question whether an item should be on the GSP list of eligible products, whether it is in fact disadvantaging U.S. workers has a right to petition. We have the most open process of any country in the world. It works. It is supported and actively praised by the participants on both sides of the issue.

I simply do not think you can make a case. I do not think that anybody can make a case that this particular bill has done, or GSP has done violence to American interests. As a matter of fact, I think we can make a very strong case that we as a country have been greatly advantaged and have had jobs created and have had incomes improved by the access that we have gained through the two-way trade that has resulted.

Mr. Russo. Where do the heaviest concentrations in GSP imports appear, would you say? Are they in the industrial sector?

Ambassador BROCK. If you would like, I will give you a list of the products. The largest single GSP product in 1982 was sugar. Then it went to inedible molasses, and then cigars and cheroots, and then canned corned beef and then ale and beer, and then edible preparations, and then confectionary, and then castor oil, and then unsweetened cocoa, and then biscuits, cakes, sausages. These are the agricultural items.

Chairman GIBBONS. How about metal products, machinery, equipment and manufactured goods? Where is that listed?

Ambassador BROCK. We can get that. I do not have it with me at the moment, I do not think.

Mr. Russo. Could you supply that for the record?

Ambassador BROCK. Sure. I would be happy to.

[The information follows:]

The following tabulation provides a general indication of the sectoral concentration of GSP imports. Sectors are defined on the basis of two-digit Standard Industri-

al Classification (SIC) categories. Imports are expressed in million dollars based on 1982 statistics.

<i>SIC category</i>	<i>GSP imports</i>
Agri-crops (1).....	\$95.4
Agri-livestock (2).....	9.7
Forestry (8).....	.1
Fishing (9).....	20.0
Metal mining (10).....	39.1
Bituminous minerals (12).....	0
Oil and gas (13).....	.0
Minerals (14).....	86.0
Food products (20).....	689.1
Tobacco (21).....	36.5
Textile products (22).....	39.7
Apparel (23).....	173.4
Lumber and wood (24).....	248.5
Furniture (25).....	398.1
Paper (26).....	94.2
Printing (27).....	24.5
Chemicals (28).....	331.2
Petroleum (29).....	3.3
Rubber (30).....	383.0
Leather (31).....	182.8
Stone, clay, glass (32).....	237.0
Primary metals (33).....	445.2
Fabricated metals (34).....	745.0
Non-electrical machinery (35).....	848.6
Electrical machinery (36).....	1,400.1
Transportation equipment (37).....	378.0
Instruments (38).....	344.5
Miscellaneous manufactures (39).....	1,153.8
Total.....	8,422.0

The following is a list of the twenty leading industrial products entered under the GSP in 1982 (value in million dollars):

<i>TSUS and brief description</i>	<i>GSP imports</i>
685.90 Switchboards, panels, etc.	\$152.5
685.29 Hand-held CB radios.....	148.6
660.48 Auto piston engines.....	132.8
676.52 Office machine parts n.e.s.	132.6
612.03 Unwrought black copper.....	127.1
727.29 Wood chairs.....	123.3
737.40 Toy animals n.e.s.....	115.4
774.55 Articles of rubber n.e.s.....	96.5
740.38 Jewelry n.e.s., over 20¢ doz.	92.6
684.62 Telephone apparatus.....	90.1
685.40 Tape recorders.....	89.2
684.25 Microwave ovens.....	87.1
737.95 Toys and parts n.e.s.....	83.2
657.25 Articles of iron or steel n.e.s.....	81.5
727.35 Wood furniture n.e.s.....	81.3
661.06 Fans and blowers n.e.s.....	78.9
682.60 Generators, etc., n.e.s.....	77.9
708.45 Eyeglasses.....	73.6
791.15 Fur wearing apparel n.e.s.....	68.9
740.14 Jewelry of precious metals n.e.s.....	66.8

GSP trade in the items shown above totaled \$2 billion in 1982, or 24 percent of total GSP imports.

Ambassador BROCK. The point, though, is fairly simply stated. The logic of removing a country because it has a surplus or a deficit, does not make sense. GSP was never designed that way.

Mr. Russo. That is not what I am saying.

Ambassador BROCK. We are doing this on the basis of whether it is competitive by product.

Mr. Russo. What I am saying is in the graduation process eventually these countries do not need special treatment any more. What do we do when these countries develop surpluses? When they show that they can compete, why can't we remove them and let them compete in the world market like they should, and then we could help the lesser developed countries?

Ambassador Brock. Instead of doing less business, why do we not do more? What we are proposing in this bill is to let us reduce the competitive need formula and then say OK, folks, if you want to do more business and remove the competitive need limits so that you can do more business with the United States, then let us see what access we have to your markets.

And that would be one of the factors we evaluate in whether we grant that exemption. That process will allow for the creation of more jobs in the United States.

I think the alternative of simply removing it says we are going to do less business, and that means less jobs in this country.

Mr. Russo. I guess my concern is that sometimes we actually hurt ourselves by saying we want you to be more competitive with us; we want you to come in and do more business with us.

How does that have an impact? As I understand it, in the Trade Act we are supposed to be concerned about the impact that import penetration has on our country. I am concerned that when you have these countries doing well without GSP, how much extra impact are they going to have in our country and how much more disadvantageous is it to our workers to allow these countries to continue to receive special treatment under the law.

Now I suppose we have a mechanism in place to see if these industries are import sensitive, which you say you do.

Ambassador Brock. We do. And labor and management and affected companies are in there every day testifying on it, and their views are carefully considered. We have graduated a whole range of products on a regular basis. This administration did change the graduation policy when we took office in 1981. It has been, in my judgment, a very effective change.

But you simply cannot shift countries on and off. You do have to look at it in the particular category. And I guess I want to be sure that we do not look at this program only from the import side. At least a significant portion of the GSP logic is that it creates export opportunities as well. It is important to bear in mind that when you are dealing with GSP, you are talking about two-tenths of one percent of GNP.

Now, you just cannot say on a macroeconomic basis that that has done this country any harm when our export opportunities created could be any number of times that quantity. And I think that what we ought to look at is what the prospects are for improvement.

Mr. Russo. Thank you.

The gentleman from Ohio.

Mr. PEASE. Thank you very much, Mr. Chairman.

I would like to continue the discussion that you have started. As you know, Mr. Ambassador, I am very much concerned about the automobile industry and the steel industry, both of which are important to my area. This subcommittee visited both South Korea and Japan during the Easter break. We were impressed that South

Korea is really coming on strong and in fact underselling Japan in steel.

We were also impressed by the development of a little automobile called the Pony in South Korea which retails for about \$2,900. The question crossed my mind, what would happen if the South Koreans started shipping that automobile to the United States, or automobile parts?

Can I ask on a factual basis does GSP exempt entire automobiles from our tariff from GSP countries?

Ambassador BROCK. As far as I know, GSP treatment is not afforded any automobile that comes into the country. If it were applicable and there were a country sending cars in under GSP, yes, it would exempt them from the tariff.

Mr. PEASE. To cite a specific example, if Korea were to send automobiles here, would they be subject to our tariff or not?

Ambassador BROCK. They could apply for GSP. I do not know how to prejudge what the response would be, but let me just point out that the tariff on automobiles in this country is very, very low. I do not think it would make a whole lot of difference if they can sell a car at \$2,900, with or without the tariff. It would not affect their competitive circumstance.

Mr. PEASE. What about the 25-percent tariff on trucks? That is a little more substantial.

Ambassador BROCK. That is a good deal more substantial. That was a different situation, and it applied because of the change in the categorization of the tariff categories.

Mr. PEASE. If Korea were exempt from the truck tariff, it would make a substantial difference in the price, would it not?

Ambassador BROCK. If it were 25 percent, yes. That simply is going to be very hard to do. We have to evaluate whether a country is competitive enough, first of all as a country; second, on the product. And I find it very difficult to believe that we can put any automobile coming into this country on GSP. I do not know how they would get it here if they were not competitive. I mean it just does not make sense to use that as the illustration, I do not think. I cannot imagine that happening.

Mr. PEASE. Are not automobile parts already coming into this country under GSP?

Ambassador BROCK. Yes.

Mr. PEASE. Automobile parts.

Ambassador BROCK. Parts are, but not automobiles and not trucks.

Mr. PEASE. In general, I think GSP is a good idea and in general I think expanding world trade is a good idea. We have an obligation to assist lesser developed countries and those that are entering the advanced development stage. I think a healthy world economy contributes to a healthy American economy and vice versa. We have no argument about that.

I also agree with your statement that, looking at the entire U.S. economy, GSP does not amount to very much, and that our economy probably benefits as much as it loses from its trade with lesser developed countries.

The argument that I continue to have with this administration is what happens to those specific sectors which do get hurt by liberal-

ization of trade? Automobiles and steel are certainly in this category.

I probably have 5,000 or so autoworkers in my district who are still unemployed despite the recovery. And I have about 4,000 steelworkers who have been unemployed for over a year now and have exhausted their unemployment benefits. And I have to ask what is going to happen to them?

Now, if you were to come to me and say well, we have a plan, we are going to provide training, assistance, and readjustment and relocation allowances and that sort of thing for these people, that is one thing. But the administration is opposed to the TAA bill which was just reported out 3 weeks ago.

The administration also is opposed to the supplemental unemployment compensation system, and it is opposed to any change in the formula by which extended benefits are calculated. So the result is that if the administration has its way, starting the first week in October, thousands of Ohioans who are still unemployed will find they have 26 weeks of State unemployment benefits, and that is all and nothing else.

Now, under those circumstances it is easy for us who represent districts in the Northeast and Midwest in particular but also around the country to say yes, in general, GSP makes sense. But I must emphasize that the administration must begin to deal with the specifics as well as the general—

Mr. RUSSO. Will the gentleman yield?

Mr. PEASE. I would be happy to yield.

Mr. RUSSO. Just two comments. First, I believe what the gentleman is saying is that it is a two-way street. You come to us and ask for help to increase trade, which a lot of us believe ought to be done. At the same time we want to help those individuals in our country who are adversely affected by a more liberalized trade policy. And for whatever reason, we do not seem to be able to get the other side to come over and help us on some of the things we think are important.

And the second comment I have, what criteria, Mr. Ambassador, would you use in determining whether a nation should be graduated?

Ambassador BROCK. I will answer that, and then, if I may, come back to your comments.

The criteria are fairly well established. The overall competitive circumstance of the country, and then we look at each sector or industry in terms of its individual competitive circumstance. And then under the proposal we have added a new criteria, and that is whether or not the degree to which they offer opportunity for us to market our products there. Those are the criteria by which we would evaluate them.

Mr. PEASE. Excuse me. I cannot hear you, Mr. Ambassador. Would you move the mike up and repeat that last statement, the additional criteria?

Ambassador BROCK. Yes. We are suggesting that we reduce the competitive need formulation to \$25 and 25 percent, in dollars, \$25 million. And that if the country wants to continue to sell beyond those limits, that we would, as a part of the response, evaluate the

degree of market opportunity that we had in their country, what we call access formula.

If I may, let me come back to your comment, Congressman, on—I was advised that market access is already in the statute. What we are doing is modifying the competitive need numbers. But with that purpose in mind, let me start off by saying I think you are the first person that has accused us of liberalizing automobile and steel in this administration. After our recent actions I welcome your comment. But I have not heard it before.

Second, with regard to GSP, I can only ask that you separate GSP and judge it on its merits and not as a part of a different problem which I would be happy to discuss with you, and that is TAA. But GSP does have different criteria for taking into account the needs of U.S. workers and industries.

When our annual product review is ongoing, people do not have to prove, as they do under the U.S. trade law, material injury. It is a much tougher standard to go to the ITC, for example, to get a CVD or an antidumping petition approved. It is much tougher to do that than it is to come to our product review group and say this particular category is beginning to cause some difficulty. We do take that into consideration very carefully. And I think GSP has been administered with extreme sensitivity to the import penetration and the hazards faced by workers and companies, because it is a single purpose program that is designed to offer special opportunities.

Last, on the question of adjustment assistance, you know, we have talked about that before, Congressman, in feelings that I think the administration has, which I share, that the old system was not one that did effectively help in the adjustment, was income maintenance but nothing else.

I believe that we are trying to move in the direction of real adjustment assistance. And Bob Searby may want to comment on that. But under the jobs training program, and specifically the displaced worker component, the administration did suggest changes that did attempt to deal with that particular problem.

It may be that it is not enough. It may be that it is not properly targeted. But I do not think you can say there is an absence of effort. There has been a sincere effort to look at the problem and to see how we can more effectively deal with it.

Mr. Russo. The gentleman's time has expired.

The gentleman from Pennsylvania.

Mr. SCHULZE. Thank you, Mr. Chairman. And I thank the panel for their presentation.

If my memory serves me correctly, there had to be some kind of an agreement at GATT to allow GSP. Was that permanent or does that run out in 10 years and have to be renewed?

Ambassador BROCK. The GATT allowed by, I think it was by waiver, a special program for developing countries. It is permanent. It was originally presented as temporary, and then it was extended on a permanent basis in 1979 at the MTN round.

Mr. SCHULZE. So nothing has to be done to renew the application?

Ambassador BROCK. Not in the GATT.

Mr. SCHULZE. There are many other countries who have GSP as well. Are there any talks going on so there would be uniform extension, or will we unilaterally do what we want to do and other countries will do what they want to do?

Mr. DAM. Many other countries have already extended, some of them permanently, and so that really is not necessary. We are in a way bringing up the rear.

Mr. SCHULZE. So there really have been no discussions of uniformity or conformity.

Mr. DAM. No. Although it was discussed, as Ambassador Brock has suggested, ostensibly in the Tokyo round in 1979. That is when the GATT authorization was made permanent.

Ambassador BROCK. I did suggest, Congressman, in Geneva last November that we take a look at the total question of developing countries' north-south trade, and that suggestion was not adopted in the GATT. If you recall, the heads of government at Williamsburg again endorsed the concept of talks to look at the question and problems associated with north-south trade. And in my most recent trip to England I met with a number of different trade officials of different countries and raised again the need based, in my judgment and the judgment of the United States, for taking more effective action to expand trade with developing countries and particularly within the context of the debt situation which we now see.

But those so far are conversations, and insofar as GSP is concerned, as Secretary Dam has said, 19, I think, countries have already extended GSP, and only the United States and Canada have yet to do so, and Canada, I think, has committed to do so as of next June or July.

Mr. SCHULZE. I understand legislation has been sent by the administration to the Hill. I have not had an opportunity to see it yet. But can you go over for me the differences that are proposed in that legislation?

Ambassador BROCK. Basically, the difference is that we make explicit the President's authority to lower competitive need limits to 25 percent penetration of U.S. market, and \$25 million.

Mr. SCHULZE. He would have the discretion to do that at any time?

Ambassador BROCK. No. That would be done after a 2-year period during which time the President would conduct a general review, to determine whether products were highly competitive. The lower limit could only be waived from that point forward by Presidential decision after consultation with the particular beneficiary country during which the Presidential decision after consultation with particular beneficiary country during which the President would evaluate a number of factors, including the opportunity for sales of U.S. products in the beneficiary country's market.

In sum, I think, the most fundamental change would be the reduction in the competitive need limit for highly competitive products from 50-percent down to 25, and from \$50 million down to approximately \$25 million.

We are also asking that the President be given the authority to exempt all least developed beneficiary countries from competitive need limits.

I think those are the two fundamental changes. There is one additional new factor to be considered in GSP eligibility determinations in which we would evaluate under the law which we request a beneficiary country's competitiveness relative to other beneficiary countries with respect to a particular article.

This change reflects our current administrative practice, but it is not law. We are suggesting that it be codified so that you have the assurance that not only this administration, but future administrations will follow that practice.

Mr. SCHULZE. On your second point, it seems to me that I saw somewhere that the least developed countries get about 1 percent of the GSP.

Ambassador BROCK. A little less than that actually. They sold us last year slightly over one-half of 1 percent of GSP, about \$50 million.

Mr. SCHULZE. If we grant the President that authority, what do you have in mind or how are you going to create more business or create incentives in the lesser developed or the least developed countries?

Ambassador BROCK. I think the most we can do is to establish the principle that they have to make greater efforts to provide us with market access, which we hope will draw some investment into those countries and give them a stronger opportunity for creating jobs and exporting.

We also have expressed a continual willingness to go to those countries or to work with them here or wherever to explain how GSP works and to try to help them seek the opportunity. A lot of them do not have the technical skills to apply and do not know what products might even be considered.

We do try to offer that. But in all candor, Congressman, it is a very difficult task for them. They are in the very early stage of development, and it is going to be a number of years before things change too much for most of them.

Mr. SCHULZE. On the \$25-25, when they get over that point is that the only time you are going to have the opportunity to negotiate market access, or do you want an opportunity to negotiate on our access to their markets at other periods?

Ambassador BROCK. We are not "negotiating" the issue of what the competitive need limit will be with respect to a particular product, but instead we will be consulting with beneficiaries in the process of determining what the competitive need limit should be. In the consultations we will raise the issue of market access. The consultations can be an effective tool in encouraging beneficiaries to look at the damage they do to their own countries by trade limits, for example. I do not see how a country can really expect to make progress and to become a world class competitor if they prohibit the importation of computers. There are some countries that do that now. They will never have competitive domestic enterprise if they do not buy American computers, just because the computers will help their domestic enterprise become competitive.

Now, that is the sort of thing that both parties could benefit from, I think.

Mr. SCHULZE. GSP covers largely manufactured products, although some agricultural products are included. And some people

argue that GSP should contain no agricultural items because their production does not contribute to economic development in the same way that manufacturing does.

How many agricultural products are included in the GSP, and what has GSP trade been in these products, and what countries supply these products? And I guess the bottom line is should agricultural products remain on the GSP list?

Ambassador BROCK. I really would like for Alan Tracy to respond to that, too, but just to point out to you that there are about 400 agricultural products on GSP. That is not a major item in terms of GSP. It is less than 1 percent, about \$72 million. I am sorry. It is 10 percent, \$720 million. Excuse me. My glasses are not focused.

But I think the point is that almost every country has to start with agriculture, and that is the beginning of a trade process. And on that they can build from agriculture to processed agriculture into other manufacturing. I think it is a very important step for them. And many of the manufactured GSP imports are in areas where we do not have domestic production of our own.

Alan may want to comment as well.

Mr. TRACY. I would give those same figures. But we do feel that the provisions that are in the proposed new law, especially given possible modifications of administrative procedures, are a little bit stronger in terms of their ability to respond to new problems that might show up in agriculture. Therefore, we support the proposed law as it stands.

I understand there is a specific bill that is out and the administration has not taken that bill and looked at its specific language and taken a position on it.

But it would seem that when many countries have very little to offer but agricultural products, particularly some of the poorest ones, and when we do have some agricultural products which we do not pretend to have any self-sufficiency in, that it would seem that that might tend to violate the purpose of the GSP program.

Mr. RUSSO. Would the gentleman yield?

Mr. SCHULZE. I would be happy to yield.

Mr. RUSSO. When I asked the Ambassador what product most benefited from GSP you mentioned four agricultural commodities. The point I was trying to make, would you say that the GSP imports are heavily concentrated in agriculture as opposed to industrial, or vice-versa?

Ambassador BROCK. Vice-versa. The only list I had in front of me was the agricultural list. I said I would have to furnish you with the domestic.

Mr. SCHULZE. I guess my point is I wonder how much we are really helping by encouraging expansion or export of agricultural products versus manufacturing goods. And is there a way that we could put more emphasis on manufacturing goods especially in the least developed countries?

Mr. DAM. I would like to comment on the assumption of that question. Obviously, one could adjust what products are on it. But the development studies that I have seen have indicated that those countries that are best able to expand and to make more efficient their own agriculture are the ones that have the highest growth rates.

I think a lot of less developed countries made mistakes in the 1960's in trying to shift to manufacturing. They really reduced their own growth rate and hurt their own development. I think it has been true in our country that we first developed in agriculture. I think that this is true in most of the countries have had very rapid growth rates.

And so I am not sure that it is in the interest of the countries to try to force them to go from agriculture to manufacturing by trying to adjust the GSP products.

Mr. SCHULZE. Then actually you would say it is better the other way around, to force them perhaps, or encourage rather than force?

Mr. DAM. At least we ought to be even-handed about it and let the economics of the situation determine what happens in the individual countries.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Mr. RUSSO. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

I want to thank the panel for their fine testimony and their appearance today.

Ambassador Brock, a lot of us have been forced to think defensively on the subject of trade and export development over the past couple of years; but I want to congratulate you on the passage of CBI, on the negotiation of the Chinese trade agreement on textiles, and I guess peripherally with the Department of State and Agriculture on taking the leading role in the extension and expansion of the grain agreement with the Soviets.

All three of those rather recent developments, it seems to me, are terribly important to the expansion of U.S. exports and expansion of U.S. jobs and the expansion of U.S. prosperity. And I think the subcommittee is grateful to all of you and your associates who have worked in that field.

Mr. Ambassador, I am referring to pages 9 and 10 of your testimony where you offer what is, I guess, the second major change in GSP, the first big reduction from 50 percent to 25 percent and \$50 million to \$25 million.

The second major change, as I understand your proposal, is that we will try to offer these countries incentives to open up their market to ours. Can you be a little more specific?

I read those two paragraphs, and I am a little confused. Can you say it in language that we dummies can understand? [Laughter.]

Ambassador Brock. I am always worried when somebody starts saying something like that to me.

It seems to me that we do have an opportunity to do something more defensively here. We have an opportunity to create new and larger trade prospects. And I am proposing that as we analyze a country's desire to exceed the reduced limits of competitive need, that we take into account and discuss with them those barriers to our products which presently impede the creation of jobs here in this country. Because I do not think trade is going to last unless it works both ways.

And GSP, like any other trade bill, should enlarge the totality of trade, not simply one-way trade. If you look at the countries on the

GSP list, they have just a whole range of barriers to U.S. products—some tariff, some nontariff, some simply bureaucratic—but in areas that are not only important to us now, like finished products, manufactured products, but in services, in telecommunications and intellectual property rights.

We have an interest in improving the rules by which we do business with these countries. And it is my judgment that properly focused, this program could have a substantial effect in encouraging them to consider changes that would be in their interest and certainly in ours.

Mr. FRENZEL. I guess I am not certain as to the scope of the authority that you are requesting to give incentives. For instance, let us take a country like Brazil. It has been a recipient of some GSP privileges. It has export subsidies, to which we object. It has certain barriers to imports of goods from the United States.

Do you propose to say that to get GSP privileges at all that you will or you must remove those barriers, or do you propose that in order to add new items to GSP you must remove barriers, or do you simply intend to sit down and negotiate and talk it over and say look, fellows, we know you are down on your luck; we do not want to bankrupt you; if you do this, we will do that.

This committee I think is not going to be in a hurry to confer broad grants of authority on the executive branch. And I think we have to know really what you are thinking about here.

Ambassador BROCK. The present law requires us to take into account access. And the reason I am cautious about my response is that that is one factor that we take into consideration currently when we do our annual product review. We will continue to take market access into account when we look at requests for waivers of competitive need under the administrations proposal.

The fact that we lowered the competitive need formula offers up more opportunities, Congressman, for conversations of this sort. And those conversations, I would think that a country that was asking for us to allow it to come in on a preferential basis would be willing to hear us and consider our interest in opportunities to sell on a nonpreferential basis in their markets without the imposition of unfair trading barriers.

The subject matter that could be discussed is limitless. You mentioned one country that has been accused of subsidizing product into this country. Well, that violates our laws, and we have ways of dealing with it. But other barriers perhaps do not violate U.S. domestic laws, but certainly deny our business people and our work force a competitive chance to sell their product.

I would like to be able to raise some of those issues in the context of this kind of conversation with them to see if in fact we can improve U.S. export opportunities. I do not think we are asking for a broad kind of authority. As a matter of fact, what we are suggesting is somewhat tighter restrictions on the program than presently exist.

But we are saying while we tighten up the program, while we take into account the concerns of those who are worried about GSP, we do so in a fashion that allows us the opportunity to open up the system and let it expand quite a bit.

Mr. FRENZEL. I thank you, Mr. Ambassador. I think this is going to be an important point for the Congress as it contemplates the extension of GSP. It has often been said facetiously that if Congress knew what GSP was in 1974, it would never have included it in the Trade Act. This is still a very sensitive issue, and we are going to have to know exactly how you contemplate using this particular aspect of the proposed law, and we will be discussing it with you further.

Thanks to all of you gentlemen for your testimony.

Mr. RUSSO. Mr. Ambassador, just one followup.

When you take into consideration the graduation of some of these countries—and I am looking at the top three countries—since 1975 Hong Kong has had a 139-percent increase in their per capita GNP, Korea has a 170-percent increase, Taiwan had a 141-percent increase, and Brazil has a 99-percent increase.

Are not those the kind of factors that would make you look at whether the system has in fact worked, and if they want to compete, they ought to compete on their own without GSP?

Ambassador BROCK. Sure. But you have to look at it not just in terms of a percentage of improvement in GNP or personal levels of income. When you start at a very low level, you can put a very high percentage increase on almost anything. You also are required to look at their competitive circumstance on an industry-specific basis. In some industries they are competitive, and we have removed them from the GSP list. There have been substantial removals from the GSP list. In other areas they are not competitive and will not be for a few years, at which time we will look at that. In some cases they will not be competitive for 20 years.

But let me just try to draw back from that for a second and put this thing in some perspective for you. We were talking earlier with Congressman Schulze about agriculture. And we imported \$721 million, if I remember, in 1982 in agricultural products; but at the same time, in the same year, 1982, we exported \$14 billion worth of agriculture. That is a 20-to-1 ratio. In manufactured goods it is a 10-to-1 ratio. We import \$8 billion or less than that. We exported over \$80 billion worth of products overall on GSP and all trade.

And so if you maintain those ratios in your mind as you look at the program you realize that it has been successful.

Mr. Russo. Thank you, Mr. Ambassador. Thank you very much. We thank the panel.

[The following was submitted for the record:]

USTR RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY CONGRESSMAN MATSUI ON
RENEWAL OF THE U.S. GENERALIZED SYSTEM OF PREFERENCES

Question 1. The Presidential message of April 10, 1973 proposing the Generalized System of Preference Program stated that "[t]his legislation would allow duty-free treatment for a broad range of manufactured and semi-manufactured products and for a selected list of agricultural and primary products which are now regulated only by tariffs."

Do you agree that the GSP Program was not envisioned as an agricultural program but was in fact designed to diversify the economies of lesser developed nations, many of whom were already heavily oriented toward agriculture?

Answer. The United States and other industrialized countries agreed to establish preferential tariff programs to assist developing countries in diversifying their economies in order to achieve economic growth. Products eligible for preferential

treatment in the industrialized countries' programs cover a wide range of manufactured, semi-manufactured and agricultural products. The programs are not intended to be, nor are they in fact, agricultural programs. The limited coverage of agricultural items in the U.S. scheme is indicative of the selective nature of GSP eligibility for agriculture. The product coverage in the U.S. scheme contains a relatively small number of GSP-eligible agricultural items—400 agricultural items out of a total of 2,950 GSP-eligible articles, accounting for \$721 million or 9 percent of total GSP imports in 1982. (Ten items, of which the leading item is sugar (\$290 million), account for the vast majority of GSP agricultural imports. None of these ten items are specialty crop products.) According to a recent study released by the ITC, GSP imports were less than 7 percent of total U.S. agricultural imports, and accounted for only 0.5 percent of U.S. consumption. Nevertheless, the limited coverage of agricultural products in the GSP has enabled developing countries to expand and diversify some aspects of their agricultural sectors. For some countries agriculture is the only realistic source of foreign exchange earnings.

Question 2. If this is the case, and Congress assumed that this was the case when the legislation was enacted, why is it that over the years agricultural products have increasingly been added to the GSP eligibility list? For example, according to the President's 1980 report to Congress a total of 82 items had been added to the list and 44 of these or 54 percent were agricultural products. In 1981 and 1982, 153 additional items became eligible and 52 or 34 percent were agricultural products. In the product additions announced in April of 1983, 12 of 26 products or 46 percent were agricultural items.

This does not sound like the program is being administered so that only a selected list of agricultural products are being considered for GSP eligibility.

Shouldn't the Congress correct this imbalance legislatively by an amendment to the GSP Program?

Answer. All articles added to the GSP in the years following its enactment have been added on a selective, case-by-case basis pursuant to our annual product review procedures. This process is widely recognized as transparent and accessible by domestic and foreign interests alike. Since the implementation of the GSP program in 1976, the Administration has conducted product reviews through which interested parties, domestic and foreign, have had an opportunity to request modifications in the list of products eligible for GSP duty-free treatment through product additions, removals, or graduation. All of these requests are carefully considered within the interagency trade policy committee framework, which also provides interested parties in support of or opposition to a requested modification, an opportunity to present their views either in written or in oral testimony in the public hearings. Since the program's implementation, we have received about 600 requests for the addition of agricultural products to the GSP. Of these requests, only 185 have been accepted for a full examination in the product reviews. Of those accepted for review, 100 were ultimately added to the GSP list.

Great care has been exercised in modifying the list of GSP eligible articles. This applies to all products, including agricultural products. Petitions to add items to the GSP were granted only after extensive economic analysis by the U.S. International Trade Commission on the anticipated impact duty-free eligibility would have on the relevant U.S. producers and workers. Articles have been added selectively, i.e., only in those instances where GSP duty-free treatment would provide economic benefits to developing countries with no likelihood of adversely affecting U.S. producers or workers.

Improvements to the operation of the U.S. program are always welcome. The Congress and the Administration have made some important changes during the operation of the original program. There are still many areas where the program could be enhanced to be more predictable. However, actions to further restrict by statute the product coverage of the program should be weighed very carefully. In particular, an amendment to the GSP to exclude all agricultural products from the GSP would be highly detrimental to U.S. agricultural interests. U.S. exports of agricultural products to beneficiary countries were valued at nearly \$14 billion in 1982. We have a large stake in these markets, which the GSP has helped to expand, and which can be expanded further through our proposed modifications.

Question 3. The Generalized System of Preferences is intended to encourage the development of beneficiary countries through the grant of tariff preferences for their exports to developed country markets. Is there any reason why duty free status should be provided for agricultural products or other sectors which beneficiary countries have already developed to the point of competitiveness?

Answer. Some beneficiary countries have become highly competitive in many product areas. In recognition of their growing competitiveness, the Administration im-

plemented a product-specific graduation policy in 1981. Through this policy, the President has exercised his discretionary authority to remove from GSP eligibility over \$1 billion in trade from several of the more advanced beneficiaries. This amount is over and above the value of trade excluded automatically through competitive need limits, which totalled \$7.1 billion in 1982 alone.

Question 4. The proposals for modification of the Generalized System of Preferences contained in Ambassador Brocks' July 12 letter would give the executive branch significantly greater discretion in the establishment of different competitive need requirements for individual countries dependent on vague considerations of economic development and the U.S. national economic interest. Given the lack of transparency in the administration of the present program would not additional discretion remove almost all control over the operation of the program threatening to make it purely a political tool in our foreign relations with developing nations rather than the instrument of economic policy which it was intended to constitute?

Answer. The Administration's renewal proposal grants the President clearly delineated authority to respond to changing conditions of competition, beneficiary countries' development needs and overall U.S. economic interests. For those products in which a beneficiary was determined to be highly competitive, GSP eligibility would be restricted or terminated through the application of lower competitive need limits. Conversely, the President would also be empowered to waive competitive need limits on a selective, product-specific basis. These statutory modifications are designed to further two general objectives. First, competitive products will be graduated from GSP treatment through a transparent process that does not undermine the predictability of the program. Second, since U.S. access to beneficiary markets is to be considered with respect to both prospective graduation and, even more prominently, with respect to possible liberalizations, the GSP will further promote U.S. export interests. To accomplish both these objectives, it is imperative that the President retain some measure of discretionary authority. Under the renewed program, this authority would be exercised in a highly transparent and responsible fashion based on the economic interests of the United States.

The changing composition of beneficiary country exports to the United States indicates that diversification as well as expansion has occurred. In 1976, 25 percent of total beneficiary exports to the United States were MFN-free. These items generally are basic commodities which are not readily available in the U.S. market. In 1982, U.S. MFN-free imports from beneficiary countries accounted for only 16 percent of total beneficiary exports to the United States. This provides evidence of a diversification within beneficiary economies, as production and exports have shifted from primary products to semi-processed and processed items, the majority of which are MFN dutiable. The GSP's role in this shift is shown by the fact that, whereas in 1976 GSP-eligible trade accounted for only 12 percent of total beneficiary exports to the U.S., by 1982 this figure had increased to 26 percent of such exports.

Question 5.—The Five Year Report on the administration of the GSP program failed to demonstrate any specific area in which duty free status has materially assisted the least developed and mid-level developing countries. Have circumstances so changed since 1980 that continuation of the program is now warranted, especially in light of the graduation policy which has been adopted in recent years?

Answer. The U.S. GSP program has been mutually beneficial to the U.S. economy and the development status of beneficiary countries. The benefits of the program must be viewed in the overall context of our expanding trade relations with developing countries. Total U.S. imports from beneficiary countries grew from \$28 billion in 1976, the GSP's first year, to \$78 billion in 1982. GSP imports played a small but important role in promoting this growth, increasing from \$3.0 billion to \$8.4 billion during 1976-82.

Mr. Russo. Our next witness is Dr. Clayton Yeutter, President of the Chicago Mercantile Exchange.

Dr. Yeutter, we have your statement for the record. You may proceed as you wish. Your entire statement will be incorporated in the record.

STATEMENT OF CLAYTON YEUTTER, PH.D., PRESIDENT, CHICAGO MERCANTILE EXCHANGE

Mr. YEUTTER. Thank you, Mr. Chairman. It is a pleasure to be here.

This is the first time I have testified before this distinguished subcommittee since my deputy STR days in the Ford administration. It is good to be back.

The institution with which I am now associated, the Chicago Mercantile Exchange, has absolutely nothing whatsoever to do with GSP, and so I hope that any comments I make today would be viewed as being objective.

I would like to summarize some of my views on the GSP issue. Basically, I am in accord with the thrust of the administration's position. However, I would like to amplify on that a little bit, particularly with respect to the businessman's perspective on GSP.

It seems to me very clear that we should extend the U.S. GSP program. In fact, I believe there is even more motivation to do that now than there was to establish GSP 10 years ago. The point has been made that had the Congress really known what it was doing in 1974, it might not have passed GSP legislation. In my judgment, that would have been a big mistake.

GSP has been more beneficial to the United States over the last 9 years than it has been to the recipient countries, and I see no reason why that should not continue over the next decade.

In other words, the program should be evaluated on the basis of what is in it for us more so than what is in it for them. And my opinion is that there is more in it for us than there is for them.

Looking at it from a more negative standpoint, I believe it is imperative that we trade with a number of the LDC's who are in deep financial trouble. If we do not do so, we had better be prepared to accept the political and economic consequences of major debt defaults and a collapse of their economic systems, and likewise, of course, a loss of export markets for ourselves.

I was in government during the early days of the implementation of the GSP program. However, in appraising the first 9 years of GSP, I make this assessment as an outsider for most of those years.

The GSP performance has been reasonably good. I would not give the administration under either Democratic or Republican leadership an A or an A+, but I would probably give them about a B in the administration of the program. They could improve in a number of respects, but all in all, it is a reasonably good performance.

We should recognize that it is still a relatively small program. When we are talking about GSP being only about 5 percent of non-petroleum imports and only about one half percent of domestic consumption, it is really not all that big.

In my view, GSP has been too constrained. I believe we would be better off as a Nation if the program were less restricted than it is today.

In terms of changes that might improve this program over the next decade, I would like to offer several suggestions.

First of all, I find little need to exclude very many products that are on GSP list. I would rather see the administration and the Congress give the GSP program a thrust more toward opening up additional export markets for the United States than toward closing down access by the LDC's into this country.

There was a need when this program was established to provide for import-sensitive industries and products because the program was new, and there was no time for those industries to adjust to increased competition from the LDC's at zero duty.

Those industries that are import-sensitive have had 10 years to adjust to that additional competition. If they have not been able to adjust in the last decade, they are probably not going to be able to adjust in the next decade.

So I do not have a lot of sympathy on the import sensitive question, although neither do I wish to be inordinately harsh. There are some industries, domestic industries, including some in our home city of Chicago, that are suffering at the moment from a high level of import competition. We should preserve the privilege as a Nation to withdraw GSP privileges in those areas, and take other safeguard actions under other provisions of the Trade Act.

A much more relevant and critical point, in my estimation, is that we ought to be using the GSP program for leverage. One of the areas in which I would not give high marks to any administration over the last 9 years is this one.

We have not made effective use of the leverage that is inherent in GSP. This is not to suggest that we should obtain reciprocity from all of those lesser developed nations for everything that we do for them. Total reciprocity is not in the cards in the realistic world in which we live. But to suggest that we have no reciprocity appears likewise indefensible.

There is some leverage in GSP, and if the program is larger, as I would hope it would be, that much additional leverage will be available to the executive branch.

What really bothers American businessmen is our affording GSP privileges to a given nation on a given product line under which that nation can send product *x* into the United States at zero duty. But we have to pay 100-percent duty for that very same product moving into the recipient country, that is, through efforts of U.S. exporters.

That is understandably hard for an American businessman to stomach. Not only are the duty levels much higher in those reciprocal situations, but in many cases because that lesser developed nation is not a member of the GATT, our exporters also have to face import licensing programs. These barriers make it difficult to sell any kind of product in that nation. And because of quota programs, we have difficulty achieving access no matter how competitive we are.

Some of those situations are simply intolerable. I believe we ought not accept them in the context of GSP or anything else.

In particular, we have leverage with perhaps 15 countries which obtain about 90 percent of all of the GSP benefits. With many of the 140 countries that are eligible for GSP there is not much leverage because they do not send much to the United States. But there are about 15 countries, with which a good bit of leverage exists because they are major users of GSP benefits.

Over the next decade we should make the GSP program much more attractive to the lesser developed of the LDC's—the really poor countries of the world.

An estimated 125 countries eligible for GSP only receive about 10 to 12 percent of the GSP benefits. They are just not getting much use of this program. They are the ones that need it most of all, and I see a need to make some changes in the program legislatively, administratively, or both, that will help improve access of those countries to the U.S. market.

In particular, again taking it from a businessman's vantage point, they have got to be able to amortize off some of these investments. The Taiwans and the Koreas of the world can take risks in making capital investment to penetrate the U.S. market. If you are a little country in the middle of Africa, you just cannot do it.

One of their problems in taking advantage of GSP is they cannot afford to make the capital investments necessary to use GSP, especially if there is a risk of our cutting their legs off economically a year or two down the road. It may be that we should exclude those nations, however we define that line, from the competitive need criteria, and perhaps other elements of GSP as well.

Ambassador Brock suggested the use of a waiver proceeding, which is really the administration's prerogative at the moment, but this just has not been used. This could be done legislatively as well. I again stress the need to devote attention to making the program more attractive to the lesser developed nations.

The graduation point has been discussed, and probably merits some additional study. I am pleased that the administration went to some graduation provisions here 2 or 3 years ago. I would like to see that continued.

This gets back to my earlier point about leverage, of course. If we are going to graduate nations either fully or in terms of certain product lines, the Congress must give the administration some discretion because situations differ from country to country and product to product. There must be the ability to respond in a timely way to a change in economic circumstances. The discretionary power should be established, framework for accountability.

Clearly, there are always reasons in the executive branch not to graduate countries in order to help those nations in a variety of ways. Sometimes the executive branch is not terribly sensitive to political considerations on the domestic scene, and is not nearly as sensitive as the Congress is.

But that is not to say that you ought to deprive the administration of discretion. Grant the discretion—with accountability—and exercise congressional oversight responsibilities aggressively.

The criteria that are being used by the administration for graduation appear to be sound. But I would add at least one more criterion relating to the conduct of those recipient nations in international trade. If the recipients of GSP are dumping products on the U.S. market, or if they are using export subsidies to undercut American exporters in third country markets—the example there is Brazil and poultry—then I would have no hesitancy in withdrawing some or all of their GSP benefits based upon their unreasonable conduct in international trade.

A point on competitive need. Ambassador Brock has talked of seeking authority for tightening the competitive need criteria somewhat by moving it down to 25 percent in certain cases and \$25 million in other cases.

I have no particular objection to doing that in an individual situation, but in a lot of cases those competitive need criteria are now tighter than they ought to be.

Consider the business and capital investment viewpoints. When one is eliminated from eligibility in the U.S. market with a relatively small amount of exports flowing to this market, it seems to me that the criteria is too tight. Creative thinking is needed in this area with respect to those limitations; for example, where the cutoff point comes with, say, only \$10 million to \$15 million worth of exports in the United States, it seems to me the percentage could easily be higher than 50. It could perhaps be 80 to 90 percent, gradually coming down to 50 percent when you hit the overall sales cutoff or trigger of about \$53 million. The cutoff point could be higher than \$53 million in cases where we become quite protectionist when that trigger point is reached, for instance. You have a traumatic situation for that LDC exporter if his duty goes from zero on up to say 20 percent at a particular time when we are quite protectionist. That is a lot different than having a 5-percent or a 4-percent duty applied if he loses GSP privileges.

It is my observation that the whole competitive need area warrants analysis and creative thinking to make it more flexible from our interest as well as their interest and to make it more responsive to the need for investment amortization.

My background involves agriculture, another area that should be addressed. Although some of my agricultural friends would wish to debate me on this, I find it difficult to justify handling agriculture differently from many manufactured or industrial products.

If this program is viable, feasible, and beneficial in the industrial and manufacturing areas, then I must conclude that it also makes sense in agriculture. But you will recall that the original intent was that it be devoted primarily to the manufacturing sector. The agricultural community is concerned that that apparent congressional intent has been eroded through the years. It would seem that the issue deserves a sound and fair hearing, and a systematic legislative decision as to whether agriculture should be treated differently.

One can make the point, of course, that it is much easier for those nations to be competitive in agriculture than in manufacturing because the capital investment is less, and so maybe the competitive need criteria could be handled differently.

When one is talking about the less advanced of the LDC's—the poorer countries—if they cannot send agricultural products to us under GSP, they are not going to be able to send much at all. They are agrarian societies, and it really has to be their entree into the United States under GSP.

[The prepared statement follows:]

STATEMENT OF DR. CLAYTON YEUTTER, PRESIDENT, CHICAGO MERCANTILE EXCHANGE

Mr. Chairman and members of the subcommittee, it is a pleasure for me to comment on the proposed renewal of our Generalized System of Preferences (GSP) program. This will be the first time I have testified before this subcommittee since my tenure as Deputy STR in the Ford Administration. Those were the early days of GSP, and I remember well the initial stages of its implementation.

Since then I have observed the GSP program from the vantage point of a private citizen. My overall impression is that it has worked reasonably well, and that the

political-economic results have generally been positive, both for the U.S. and for the recipient countries. In that regard, I should add that the institution I serve, the Chicago Mercantile Exchange, has no direct interest or involvement of any kind in GSP, so my commentary today will hopefully be objective.

Based upon results achieved to date, and upon the present status of the world economy, I would strongly urge renewal of GSP, but with appropriate legislative improvements.

This program is important to the United States for it helps create buyers for American exports. Though the developed countries still constitute our primary export market, the most rapid growth for many of our export products in recent years has come from the developing world. This is particularly true of agricultural products, but it applies in the non-agricultural sector as well where advanced LDCs have become major importers. The world's most impressive economic performances in recent years have come from the developing countries of Asia.

If the LDCs do not export, they cannot import. That is an obvious truism, but one that we tend to forget, especially when times are tough and our protectionist tendencies come to the fore. Some may believe that the ideal world is one in which we would export everything and import nothing, but we have to be more realistic than that. People, firms, and nations will buy U.S. products only if they have the purchasing power to do so, and much of that purchasing power in relatively weak economies simply must come from exports. Putting it another way, LDCs must generate the foreign exchange to buy our goods, and they can only do that by selling products to us. Therefore, if we take legislative and executive action to facilitate imports from lesser developed nations, we concomitantly facilitate our own exporting endeavors.

GSP need not, and should not, be considered a global welfare program on the part of the U.S. I would rather evaluate it on the basis of "What's in it for us?" instead of "What's in it for them?" and, in doing so, I find ample reason to support its renewal. The United States has very likely benefited as much or more than the LDC recipients from the first nine years of this program.

But there are other persuasive reasons for supporting renewal too. One is simply that the need is even greater than it was a decade ago. The entire world is just beginning to emerge from a devastating recession, which has been even more painful for the LDCs than for us. Most of them are agrarian societies, strongly dependent on commodity exports for their livelihood, and commodities have just not been a profitable business for several years. Many LDCs are also petroleum importers, and they have been devastated by the enormous price increases imposed on them by the OPEC cartel during the 1970s.

A combination of these and other factors has dramatically increased the debt load of these nations to the point where it is today strangling them economically. Though OPEC clearly is the major villain of this piece, we have no choice but to help these nations as a matter of our own self interest, over and above the compelling humanitarian reasons for doing so. There is little or no slack left in the credit lines of most LDCs. That means they must either sell more—and soon—or begin to default in their fiscal obligations. Better than we open our markets to them than to write off billions of dollars in bad debts to our government, our financial institutions, and our business firms.

Lest we feel too altruistic, I should also add that extending, or even expanding, the GSP program is not likely to bring forth a flood of LDC imports to the U.S. GSP benefits today are accorded to only about 0.5 percent of all U.S. imports (\$8.4 billion in 1981 out of \$173.6 billion total imports). In relative terms that simply is not very much. In my judgment the existing program is too constraining, to the detriment of both our country and recipient nations. We have been thinking too small, and that is one reason our international trade numbers are shrinking. Our minds set these days is focused too much on limiting imports, and not enough on expanding trade in general. I travel extensively throughout the world, and I am convinced that the U.S. can significantly expand its exports. Doing so in the face of a strong dollar is extremely difficult, but there is plenty of room for us to work harder and smarter at that task. As to GSP, our thrust should be to amplify trading patterns between this country and the LDCs; once they begin to think exports, they will also think, and need, imports.

For all the reasons just articulated, GSP should be extended and very few products should be excluded from eligibility. The Administration should concern itself more with criteria for removing products and countries from the list than it should in keeping products off the list. So long as we believe in a capitalistic society where firm and industry metamorphoses take place very day, there is little reason to protect "import sensitive" products from this or any other program. Such U.S. indus-

tries are deserving of a reasonable period of time to adjust to foreign competition, of course, but giving them forever to do so simply adds an indefensible cost to American society. In essence, you and I as citizens subsidize those inefficiencies. Therefore, I would make nearly all import products GSP eligible, but I would also expect the Administration to respond promptly and decisively to persuasive reasons for removing GSP eligibility.

This is a program in which considerable flexibility should be given to the executive branch, but in which Congressional oversight should be frequent, aggressive, and inquisitive. The executive branch needs discretion—more than it has in present legislation. But it also needs to be held strictly accountable for the exercise of that discretion or domestic policy considerations are like to be downplayed or ignored.

I like the "graduation" aspects of this program that were added a couple of years ago. This is a concept that some of us were already articulating in the context of "special and differential treatment" at the GATT several years ago. It is just as applicable to GSP, and it is high time that we graduate countries and products for a variety of reasons.

I would advocate expanding the graduation criteria to increase executive branch discretion. For example, I would like to see this and all future Administrations use the economic leverage inherent in GSP, particularly as the program expands. After all, this is a unilateral endeavor! It is a carrot in the geopolitical sphere. We own its continuation to no one. Therefore, we ought not hesitate to remove some or all of a nation's GSP eligibility if and when that nation takes trade actions inimical to the interests of the U.S. Such unconstructive actions might include dumping of non-GSP products on the U.S. market, the use of export subsidies to undercut U.S. sales to third country markets, etc. One need not look far to find examples of such activities among LDCs who are now enjoying the benefits of GSP.

In 1982 nearly 88 percent of all GSP imports to the U.S. were accounted for by only 15 countries.¹ As one might expect, they are among the more advanced of the LDCs. This means that only about 12 percent of the benefits of our GSP program are shared by the other 125 eligible nations.

Should GSP be extended for another decade, I hope that it can be made more attractive for the least advanced of the LDCs. The alternative is for us to increase economic aid to many of these nations, and I would much prefer that we enhance trade instead. There are a number of ways in which this could be done. One would be to exclude them from the "competitive need" criteria and any other bases for eligibility removal except in the most compelling circumstances. In other words, a much stronger burden of persuasion would apply to American firms or industries seeking the exclusion or removal of products from such nations on the GSP list.

From the LDC businessman's viewpoint one of the major shortcomings of our GSP program is its uncertainty. If substantial capital investment is necessary to penetrate the U.S. market, as would often be the case for manufactured products, it is difficult to attract investors when U.S. market opportunities may be transient at best. The competitive need criteria may cripple or destroy that investment at any time. At least for the poorest of the LDCs, I would strongly recommend removal of that uncertainty so that businessmen in those countries will have essentially a 10 year period to amortize their GSP related investments.

I have considerably less sympathy for the GSP appeals of the more advanced LDCs. They are by far the most aggressive in seeking "special and differential" treatment in every multilateral and bilateral fora. To the extent they are successful in doing so, they not only gain a competitive advantage vis-a-vis business firms of developed nations (a policy which can at least be defended so long as they are not engaging in unfair trade practices), but often vis-a-vis their poorer brethren as well. The latter situation is impossible to defend, and that is why we should design our GSP program to minimize or avoid such a result.

At some point, which I leave to the Congress and the Executive branch to define, the more advanced LDCs should be graduated from GSP completely. This could be done on the basis of per capita income, but other criteria might well be complementary or superior, including criteria based on the conduct of those nations in international trade.

For the more advanced LDCs, who have not yet "graduated," I would prefer to see greater flexibility in the 50 percent competitive need rule. One might, for example, apply a 90 percent rule where total imports to the U.S. of a particular product are \$10 million or less. The percentage trigger might then be gradually lowered as import numbers rise until reaching the 50 percent level at the specified \$53 million

¹ Taiwan, Korea, Hong Kong, Mexico, Brazil, Singapore, Israel, India, Yugoslavia, Argentina, Thailand, Chile, Philippines, Peru, and Portugal in that order.

level or thereabouts. This would avoid the quick removal of GSP eligibility when total imports to the U.S. are still very small, as often occurs under the present program.

I would also suggest that consideration be given to adjusting the \$53 million trigger on products where the normal U.S. duty is relatively high.

For example, losing duty free eligibility under GSP is not such a traumatic experience for a foreign company if the normal duty to which the foreign exporter will then be exposed is 5 percent or less. But if the new duty is, e.g., 25 percent, the firm will be badly hurt if most of its production comes to the U.S. Why not apply a higher competitive need trigger where we are more protectionist. For example, the \$53 million trigger might be used for products where the normal U.S. duty is 5 percent or less, a \$75 million trigger where the duty is in the 5-10 percent range, and \$100 million where our duty is above 10 percent.

CONCLUSION

In summary, I am a strong advocate of the GSP program in concept. It has had its administrative tribulations, but those are correctible. Our import sensitive industries do not believe that the executive branch has been sufficiently responsive to their needs and concerns over the first nine years of GSP, and in many cases they were probably right. Government officials tend to move more slowly when they are unenthusiastic about moving at all. That too is correctible, for domestic industries ought to have their say when GSP decisions are about to be made, and they ought to have it in a timely manner. If necessary, definitive time requirements should be specified by statute, as is already the case in other trade laws.

GSP has too often been used in a defensive way during the early years of its existence. We have been ambivalent as a government with respect to its merits because it was initiated in response to strong, sometimes arrogant, pleas from the more vocal LDCs. So the executive branch has been caught in the middle between LDCs clamoring for more benefits and U.S. industries who feel that too much has already been given.

In the future we ought to look at GSP in a positive way, making sure that it serves the overall best interest of this country. We ought to use it to advance trade generally, including fostering U.S. exports. Let's make the program substantial and meaningful enough that it will afford us leverage to (a) constrain the unfair trade practices of recipient nations, and (b) reduce trade barriers in those nations thereby opening up markets to American exporters. This is not to suggest that we should demand full reciprocity from GSP recipients. That would be inappropriate and unrealistic. But today we are getting essentially no reciprocity at all! That should be changed.

Finally, let us afford the executive branch sufficient flexibility to make this program work and grow. At the \$8 billion level, it is marginally worth doing, but not much better than that. If it is to have a positive impact on 140 recipient nations, it has to be more substantial in its scope, and its benefits must be more diffuse. Our highest priority for the second decade of GSP should be to make it more useful to the poorest of the LDCs. If we are not successful in achieving that objective, we ought to look at a completely new approach to these issues a decade from now.

I would be pleased to answer any questions the subcommittee may have.

Mr. Russo. I thank the gentleman and certainly appreciate your comments.

One of my main concerns, as I pointed out, is the situation where the majority of the benefits to three countries whose products entering our country outside of GSP are competitive by themselves. They have surpluses with our country.

Do you think it is prudent and wise to continue giving these countries this treatment under GSP when they have, for example, increased their per capita GNP substantially over the 10-year period? The program has worked. They are more competitive. They are more industrialized.

Don't you think that that is one reason why the lesser developed countries that you are talking about are not getting their share,

because the greatest portion is being eaten up by the individuals on the top?

Mr. YEUTTER. I agree with a lot of what you have said, Mr. Chairman. In fact, there is no question but that the upper level of the LDC's is gaining far more from this program than the lesser advanced.

Mr. RUSSO. How do we spread out the benefit?

Mr. YEUTTER. We spread it out by differentiating the program in some of the ways I outlined and perhaps in other ways. In my judgment one cannot defend the situation as it presently exists on the basis of some of the points that have been made today.

Now, this is not to say that we ought to immediately exclude the Taiwans, Koreas, and others from the benefits of GSP. I would rather take them on a case-by-case basis and evaluate them one by one.

As I pointed out earlier, some of those countries need to be graduated at a particular point in time, graduated totally.

I am not suggesting you do that overnight. I am sure the administration would be vigorously opposed to doing it instantaneously. But when they reach a particular level of competitiveness and a particular level of per capita income, I would have no hesitancy in asking those countries to graduate. They ought to become members of the GATT, and they ought to conduct themselves in international trade the way that developed countries do.

They consider the United States and other developed countries to be members of the rich man's club. They all have aspirations of joining that club. But many of them wish to join without the obligations and duties that come with that status.

I used to make the point in my Government days that that was wishful thinking on their part. In the U.S. viewpoint, that was not going to happen. We believed that when they reached the status where they should be graduated, then they would have to accept the same kind of international trade system as everyone else.

Some of those countries that are now GSP recipients are not far from that. They may not quite be there, but they are there in some products. They may not be there to the point where they ought to be excluded totally from GSP, but clearly they should be excluded on some products probably more so than has so far been the case.

Mr. RUSSO. The gentleman from Pennsylvania.

Mr. SCHULZE. Thank you, Mr. Chairman, and I would like to thank you, Dr. Yeutter, for again appearing before the committee. It seems that I usually agree with everything that you say when you are here. The only question I had was the question that the chairman just propounded.

But I do want to thank you for your suggestions, and I think they are important ones and ones which we will certainly take up in our deliberations as this bill is fashioned.

Mr. YEUTTER. Thank you, Mr. Schulze. I would like to emphasize that leverage and reciprocity ought to be substantial elements of your debate and discussion here.

If I were to fault the administration of GSP over the last 9 years, it is primarily in that area. We do not owe GSP to anyone. This is a unilateral program. We are providing it for some altruistic rea-

sons, as Ambassador Brock indicated, but also for some good, solid business and geopolitical reasons.

But all of that aside, we should also be using the leverage we have under the GATT, irrespective of what happens in GSP. I believe we should use the leverage inherent in GSP in our trade relationships with other nations—in many situations we have not been doing that. We have been very tolerant of unfair trade practices of LDC's. We have been very tolerant of enormous restrictiveness on their part. At the same time we have graciously provided them access to our markets with essentially, no reciprocity.

I would like to see that change. Of course, that is primarily an administrative issue rather than a legislative one. But since you are holding these hearings, this is a good time to vigorously debate that point with the executive branch.

Mr. SCHULZE. Thank you.

Mr. RUSSO. Thank you, Dr. Yeutter.

Our next witness is John Sewell, the president of Overseas Development Council.

STATEMENT OF JOHN W. SEWELL, PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL

Mr. SEWELL. Mr. Chairman, thank you for the opportunity to testify.

I have tried to organize my written testimony in the form of propositions which I will summarize briefly, and then hope to respond to your questions or provide any additional information you may want.

These views are my own and do not necessarily reflect those of the council or its board. I have drawn heavily from the annual assessments that my organization puts out on U.S. relations with the developing countries, and I will be happy to provide copies of those if you should wish.

I want to deal with two subjects, one is the international context in which the issue of the renewal of the GSP must be considered, and the other the proposals for change that I understand will be discussed with your committee and then submitted in the form of legislation later this year.

The first thing I would like to emphasize is that the international economic environment in which GSP renewal has to be considered has changed considerably since the concept was first introduced back in the 1960's. The simple fact is that in the aggregate, the developing countries are much more important to growth and progress in the industrial world, including the United States, than at any time in the past. Their rates of growth in the past three decades have been spectacular. In the aggregate, they grew much faster in those last three decades than the industrial world at any time in our history.

Their participation in the world trading system, as we have been discussing this morning, has expanded equally rapidly, and they are now both important suppliers of manufactured goods to us and, of course, major markets for the United States and the other industrial countries.

As a result of this development, they have become major participants in the international financial system. When the idea of GSP was first introduced and discussed in the 1960's, nearly two-thirds of the financial transfers between the rich and the poor countries were in the form of foreign aid. Last year, foreign aid totaled about 30 percent of financial transfers between the industrial world and the Third World, with the remainder being made up by a variety of private transactions.

This progress, in the developing world, however, has been unevenly spread between the so-called middle-income countries, the newly industrializing countries, and the low-income countries. The middle-income countries and the newly industrializing countries have done very well. In fact, if you take the 40 top middle-income countries among the developing world, their contribution to global growth in the last decade, their increment to gross world product was larger than that of the United States or equal to that of the contribution of Germany and Japan combined. These countries in the aggregate are now major participants in the international system.

As a result, as I indicated at the beginning, one has to pay attention to the reality that their growth and progress directly impacts on our own. One can make the case that if they do not prosper, our chances of doing well economically over the next decade are going to be hampered.

The implications of these developments—the emergence of the countries of the Third World as important economic actors—really is not receiving sufficient attention from decisionmakers in this country. The Third World now purchases, as you have been told, 40 percent of total U.S. exports, and the tables attached to my testimony spell this out in some detail. They have been our fastest growing markets over the last decade or more. According to a study of the Conference Board, for instance, nearly 80 percent of all new jobs created in the last several years were in the manufacturing sector related to exports, and a good portion of those came from exports to the Third World.

These same countries, of course, have become, as I indicated, major customers for American banks, and the link between finance and trade, it seems to me, cannot be overemphasized in the current world economic situation. It is the availability of finance for investment that has stimulated U.S. trade in the last decade, and the prospects for a slowdown in financial transfers to the developing world and of stagnant markets for their exports are likely to have an adverse impact on U.S. prosperity.

Finally, the developing countries are of considerable strategic importance to the United States, whether as a source of raw materials, access to military facilities, or more importantly, cooperation on a whole host of global problems that affect our interests, for instance migration, population growth, energy, food, nuclear proliferation, and so forth.

As one looks out over the 1980's, the short-term prospects for the Third World are not good. If you take the "1982 World Development Report" of the World Bank, their projections for economic growth out over the decade of the 1980's showed that even under optimistic scenarios, which are not likely to be realized, growth

rates in the 1980's are not going to equal those in the 1960's and early 1970's.

The prospects for the low-income countries are particularly adverse. The Bank's projections show that per capita income in the low-income countries, under their pessimistic scenario which becomes more likely day by day, per capita income in 1990 will be precisely \$10 higher than in 1980, where it will be close to \$3,000 higher in the industrialized countries.

I think it is important to stress that the international economic system remains very fragile despite the prospect of recovery in the United States, and the possibility for recurrence of instability and slow growth remains high. Therefore, it is very important for the United States to avoid decisions and measures that add to this instability, and very important that we avoid, in the short run, changing the rules of the game in ways that will enhance uncertainty.

It is in this context that the renewal of GSP has to be considered by the committee. In the current international economic environment, my strong feeling is that the preferred solution is to renew the GSP program as it currently exists, and for the full 10 years. The developing countries have clearly benefited from it. Their situation at the moment is too fragile to take measures that will affect their economic prospects. The costs to us have been relatively low and the benefits high.

Using the GSP program as a way to pressure most developing countries to open their markets is relying upon a weak reed, and we should be looking at GSP, and I hope the committee will take it up in this light, as part of an overall U.S. strategy toward development in the Third World which is grounded in our own national interest.

Let me spend a couple of seconds on each of those points.

The principle of graduation is certainly the correct one. The question is only the timeframe, and I would argue in the short run that graduating countries out of GSP in almost every case is not a wise policy.

Attached to my testimony is a series of tables we have pulled together delineating the major GSP beneficiaries, the major markets for U.S. exporters, the major customers of U.S. banks, and the major debtors in the Third World. The congruence is really quite striking. They are the countries that have done very well, that are much bigger participants in the international economic system than they were two decades ago.

These countries are, of course, among our major export markets. If you look at the last part of the 1970's, U.S. exports grew at an average annual rate of just under 10.9 percent to all countries, 12.5 percent to all developing countries, and 14.2 percent to the top seven beneficiaries of the GSP. And there is a reciprocity here in markets. Forty percent of total U.S. exports to the Third World, were purchased by the major beneficiaries of the GSP system. And therefore, measures that cut the purchasing power of these countries will be felt immediately by U.S. industries and their employees.

By the same token, when one looks at the question of least developed countries, if they are to have any benefit in the short run, as

other witnesses have mentioned, the list of product coverage under the GSP has to be expanded. It is not likely that the very poor countries are going to take up the slack which could be caused by moving the upper tier countries out of the GSP system. It will be picked up, most likely, by other industrial countries, and this is particularly true, by the way, if the legislation identifies that group of countries as the least developed countries rather than low-income countries.

The list of the least developed countries is a rather carefully defined list, I think 26 now, of the very, very poor countries, mainly in sub-Saharan Africa. In the short run, it is clear that none of those countries will be able to have the capacity to take any advantage of more open markets in the United States. If you use the low-income category for that, that includes a much larger group of countries. But then it has ramifications for U.S. trade policy.

The cost of renewal of the program as it is now will not be high. As other witnesses have also indicated, GSP imports are a small percentage of total U.S. imports. The job impact in the overall sense—and I stress in the overall sense—is not that great in terms of jobs in this country, and the losses in jobs need to be judged against the gains resulting from exports and against the much larger job losses due to recession and due to technological change and a whole host of other happenings that are inevitable to adjust to a more competitive world economy.

I would argue that the missing element both from current discussions of GSP renewal and, indeed, from trade policy in general, is the issue of domestic adjustment to a changing world economy. That is a large issue that Congressman Pease raised earlier this morning.

But the real choice we have in the United States is not between intervention in our own economy and nonintervention. It is between two forms of intervention. We will either intervene in terms of inefficient protection or intervene in some form of adequately designed and more integral adjustment to a changing world economy.

And this is an issue which urgently needs discussion and debate in the United States.

Next I would point out that I do not believe that the GSP is really an adequate lever in most cases to assure U.S. greater market access.

The benefits remain too small for most countries to compensate for the changes that would be needed in their own internal policies. To have any real leverage, the product coverage would have to be expanded into areas that are not now covered by GSP.

I would strongly favor the proposal made by this administration, and particularly by Ambassador Brock last year, for a North-South round of trade negotiations, in a real sense, looking at our long-term interests in the developing countries, looking at the issue of graduation and market access in the Third World, and looking at what proposals can be put on the table to make it worthwhile to the developing countries themselves.

And finally, I think it is clear, at least in the short run, that the major barrier to importation of U.S. goods by most developing countries is not trade barriers themselves but lack of foreign ex-

change, and for Mexico and Brazil and the other major debtor countries, it is simply lack of foreign exchange that hampers their imports from this country.

If you look at the tables attached to my testimony which spell out the turndown in the rate of growth of U.S. exports in the last year or 2, the impact of these connections becomes clear.

Finally, I hope the committee would look at the renewal of GSP in its strategic context as well as in its direct economic consequences for the United States. The generalized system of preferences is one of the litmus tests of the willingness as seen by the developing countries, of the industrialized world to respond to their needs. Reducing participation in that system or abolishing it altogether would be taken as a further sign that the United States was no longer willing to support their development.

It would come on top of a generalized retreat from participation in multilateral institutions that has been going on for the last several years, whether it is in aid levels, refusal to participate in the Law of the Seas Treaty, resistance to expansion of the programs of the World Bank and the United Nations organizations, and so on and so forth. In this context, a more restrictive GSP would be seen as one more step by the United States in abdicating world leadership.

That would come at a time when the developing countries are simply much more important to the United States, both politically and economically. Therefore, I would argue that renewal of the GSP scheme not only makes sense for us economically, but also politically.

Thank you.

[The prepared statement follows:]

STATEMENT OF JOHN W. SEWELL, PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL

Mr. Chairman, I am very pleased to have been invited to testify on the renewal of the Generalized System of Preferences. This subject is one of considerable importance both for the United States and for the developing countries.

I have structured my testimony in the form of several propositions: first, concerning the international context in which the issue of renewal of the Generalized System of Preferences must be considered; and second, on the proposals for changes in the American legislation governing participation in the GSP.

The views expressed in this testimony are my own and do not necessarily reflect those of my colleagues at the Overseas Development Council, or its Board of Directors. I have drawn extensively, however, from the Council's publications, particularly from "U.S. Foreign Policy and the Third World: Agenda 1983," the ninth in the Council's annual assessments of American relations with the developing countries.

1. The international economic environment has changed considerably since the concept of the GSP was first introduced in the 1960s. The developing countries in the aggregate now are much more important than ever before to growth and progress in the industrial world.

(a) The growth rates of the developing countries have been astonishing over the past three decades; higher than the industrial world during comparable times in its development. The developing countries' share in world GNP has grown from 15 percent in 1960 to 20 percent in 1979 and could be as high as 25 percent by the year 2000.

(b) Their participation in the world trading system has grown rapidly. International trade itself has expanded, and in that environment the manufactured exports of the LDCs have increased at an annual rate of 10 percent during the 1970s. These countries now are both important suppliers of manufactured goods and major markets for the industrial countries.

(c) In the same period, the developing countries became important participants in the international financial system as the pattern of financial transfers from the rich

to the poor countries shifted. In the early 1960s nearly two thirds of the resources transferred were in the form of concessional assistance; by the end of the 1970s that percentage had fallen to about 30 percent, with private flows increasing to almost 70 percent. This development, of course, has resulted in a considerable burden of debt for many developing countries.

(d) The progress in the developing world has been unevenly spread among countries. The so-called middle-income countries have done very well. These 40-odd countries accounted for about 25 percent of the growth in world output in the period 1973-1979, larger than the United States alone, and equal to the contribution of Germany and Japan combined. The low-income countries did not share in this progress.

(e) As a result of these developments, growth and progress in the industrial world are now intimately linked to growth and progress in the developing countries of the Third World.

2. The implications of these developments for the United States are still not receiving sufficient attention from policymakers.

(a) The developing countries are now major markets for the United States and purchase 39.4 percent of total U.S. exports [Tables 1 and 2]. The LDCs also are the fastest growing markets for U.S. exports. Growth rates of U.S. exports to these countries exceeded those to the developed countries until the last several years [Table 3]. According to the Conference Board, 79 percent of all new jobs created between 1977 and 1980 in the manufacturing sector were related to exports, with some measurable portion of them coming from trade with the developing countries.

(b) The developing countries have become major participants in the international financial system and major customers for American banks. Therefore, the link between finance and trade is crucial. It is the availability of finance for investment that stimulated U.S. trade in the last decade, and the prospects for a slowdown in financial transfers to the developing countries and of stagnant markets for their exports will have an adverse impact on U.S. prosperity.

(c) The developing countries are of considerable strategic importance to the United States, whether as a source of raw materials or for access to military facilities. In addition, cooperation with the developing countries will be vital in addressing a growing number of global problems that affect American interests, including migration, population, energy, food, nuclear proliferation, environmental degradation, etc.

3. The short-term prospects for all developing countries are not good.

(a) The 1982 World Development Report of the World Bank projects lower growth in GDP and in GNP per capita during this decade than in either of the two previous decades. Even under optimistic scenarios growth rates will not equal those of the 1960s.

(b) The prospects for the low-income countries are particularly adverse. Even under the World Bank's most optimistic projections, GDP growth rates will not meet the levels of the 1960s; under their pessimistic—and more realistic scenario—the situation will become much worse. In those circumstances, GNP per capita in the low-income countries by 1990 will be only \$10 higher than in 1980 (compared with \$2,750 in the industrial countries).

(c) The international economic system remains fragile and the possibility for a recurrence of instability and slow growth remains high. It therefore is important to avoid decisions and measures that will add to this instability, and particularly important to avoid changing the rules of the game in ways that will increase uncertainty in an area which is now of vital importance to the United States.

4. In the current international economic environment, the preferred solution is simply to renew the GSP program as it currently exists.

(a) The developing countries clearly have benefited from the U.S. GSP system since it was instituted in 1976.

(b) The situation of the developing countries is potentially too fragile at the moment to take measures that will affect their economic prospects. With world trade stagnant and total global debt close to \$600 billion, any measure that decreases the ability of developing countries to earn foreign exchange should be avoided.

(c) The cost of the program to the United States is low.

(d) Using the GSP program as a way of pressuring LDCs to open their markets is relying on a weak reed compared to other policy instruments.

(e) The GSP instead should be seen as part of an overall U.S. strategy toward the Third World which is grounded in our own definition of national interests.

5. The principle of "graduation" is correct but can only be implemented in a longer time frame. The beneficiaries of the U.S. GSP scheme should not be put into different categories at the present time.

(a) The financial situation of the largest beneficiaries of the U.S. GSP is precarious. The attached lists [Tables 4 and 5] indicate the congruence between the list of 15 major U.S. GSP beneficiaries in 1982 and the top debtor nations in the Third World. The lists are practically identical.

(b) These same countries are among our major export markets. In the period 1976-1982 total U.S. exports grew at an average annual rate of 9.6 percent; to all developing countries at an average annual rate of 12.5 percent; and to the top seven beneficiaries of the U.S. GSP scheme at 14.2 percent. [Source: USTR.] Forty percent of total U.S. exports to the LDCs were purchased by the major beneficiaries of the U.S. GSP system. Measures that cut the purchasing power of these countries will be felt immediately by major U.S. industries and their employees.

(c) If the least developed countries are to have any real benefit in the short run, the list of product coverage must be expanded. It appears to be other industrial countries that are likely to take up the slack brought by graduating the most advanced countries out of the GSP system, not the least developed countries. In addition, if the "least developed" category is used rather than "low-income" countries, the number of countries that could take advantage in any real sense of U.S. markets is very limited. The net effect of any change in this direction will be to reduce the program.

6. The cost of renewal of the program as it is now will not be high.

(a) In no year, since GSP was instituted, have total U.S. GSP imports been more than 3 percent of total U.S. imports from the Third World. In other words, it is a minor fraction of total U.S. imports.

(b) There is go good estimate of jobs lost because of competition resulting from application of the GSP. Some jobs undoubtedly have been lost, but research indicates they were in the areas already bearing the major share of adjustment from imports; and these losses need to be judged against gains resulting from exports to fast-growing Third World countries, and also against much larger job losses due to recession, technological change, and adjustment to a more competitive world economy.

7. The key element missing both from current discussions of GSP renewal and indeed from trade policy in general is the issue of adjustment to a changing world economy.

(a) The question is not whether to intervene to plan adjustment. The choice is only between two intervention strategies: inefficient protection or adequately designed and more integral adjustment to a changing world economy.

(b) This is an issue beyond the scope of these hearings, but one that urgently needs discussion and debate, particularly in the context of the issue of "reindustrializing" the United States.

8. The GSP is not an adequate lever to assure greater U.S. market access.

(a) The benefits remain too small for most countries to compensate for drastic changes in their internal policies. To make it realistic, the product coverage would have to be expanded into areas such as textiles and shoes.

(b) Broader trade negotiations, perhaps encompassing the issues broached last year under the idea of a North-South round of trade negotiations, would be much more productive for both developed and developing countries.

(c) Many of the product areas of greatest importance to the developing countries already are excluded from the U.S. GSP system; most notably, textiles and shoes.

(d) Currently, imports of U.S. goods by developing countries are limited not so much by trade barriers but by lack of foreign exchange. If additional finance were available it would be reflected directly in U.S. exports.

9. Finally, renewable of GSP should be seen in its strategic context.

(a) The Generalized System of Preferences has been seen by the developing countries, since the 1960s, as a litmus test of the willingness of the industrial world to respond to their needs. Reducing participation in that system or abolishing it altogether would be taken as a further sign that the U.S. was no longer willing to support their development.

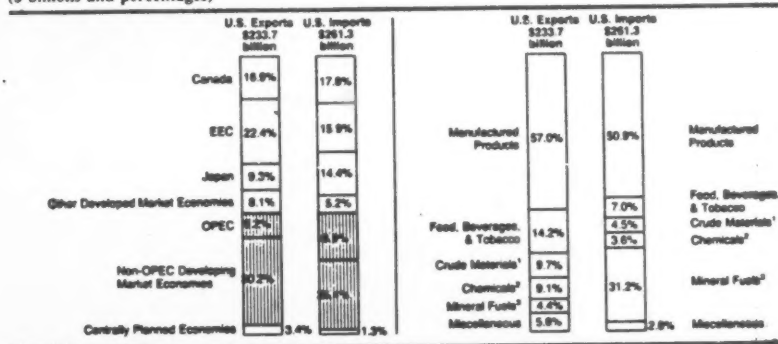
(b) Over the last several years, the United States has been in the process of a retreat from participation in multilateral institutions; our aid levels are down; we have refused to sign the Law of the Seas Treaty; we have been most resistant to expansion of the World Bank and the regional development banks; and our support for the United Nations organization has dropped considerably. In this context, a more restrictive GSP would be seen as one more step by the United States in abdicating world leadership.

(c) This withdrawal would come at a time when the developing countries are simply of much greater importance to the United States, both politically and economically. Therefore, renewal of the GSP scheme not only makes sense for the U.S. economically, but also politically.

[Taken from U.S. Foreign Policy and the Third World: Agenda 1983]

TABLE 1

E-10. U.S. Trade, 1981
(\$ billions and percentages)



¹Includes leather, glass, iron ores and concentrates, crude rubber, logs and lumber, and oil and gas.

²Includes fertilizers.

³Includes minerals and related materials.

NOTES: Export and import figures are f.o.b. (free alongside ship) transaction values. Totals include trade with unidentified countries not otherwise shown on this table.

SOURCE: U.S. DOC, Highlights of U.S. Trade (Dec. 1981), Tables E-2, E-3, E-4, E-5, and E-6.

[Taken from U.S. Foreign Policy and the Third World: Agenda 1983]

TABLE 2

A-1. Ten Largest Developing-Country Markets for U.S. Exports (\$ billions and percentages)

The fastest growing developing-country market for U.S. exports during the period 1975-1981 was China; U.S. exports to that country increased at an average of 51 per cent per year. Overall, Mexico was the leading developing-country purchaser of U.S. goods, accounting for \$18 billion in U.S. exports in 1981. The developing countries (both market economies and centrally planned economies) increased their share of U.S. exports from 38 per cent in 1975 to 41 per cent in 1981.

	1975		1981		1975-1981
	U.S. Exports	Share of U.S. Exports to Developing Countries	U.S. Exports	Share of U.S. Exports to Developing Countries	Average Annual Growth in U.S. Exports ¹
	(\$ bil.)	(%)	(\$ bil.)	(%)	(%)
Mexico	5.1	12.5	17.8	31.8	23.2
Saudi Arabia	1.5	3.7	7.3	13.1	30.2
Venezuela	2.2	5.4	5.4	9.7	16.1
Korea, Rep.	1.8	4.4	5.1	9.1	19.0
Taiwan	1.7	4.2	4.3	7.7	16.7
Brazil	3.1	7.6	3.8	6.8	3.4
China	0.3	0.7	3.6	6.4	51.3
Singapore	1.0	2.4	3.0	5.4	20.0
South Africa	1.3	3.2	2.9	5.2	14.3
Hong Kong	0.8	2.0	2.6	4.7	21.7
Total, 10 Countries	18.8	46.0	55.9	56.1	19.9
Other Developing Countries	22.1	54.0	43.7	43.9	12.0
Total U.S. Exports	107.6		233.7		13.8
Developing Countries	40.9		96.2		15.3
(as % of total exports),		38.0		41.2	
Developed Countries	66.2		136.6		12.8
(as % of total exports)		62.0		58.4	

¹Compound annual rates of change.

NOTES: Countries are ranked according to 1981 percentage share of U.S. exports to developing countries. Data include developing centrally planned economies.

Total U.S. export figures include trade with unidentified countries.

Figures are f.a.s. (free alongside ship) transaction values.

SOURCE: ODC table based on U.S. DOC, *Highlights of U.S. Trade* (Dec. 1975), Table E-3; and (Dec. 1981), Table E-3.

[Taken from U.S. Foreign Policy and the Third World: Agenda 1983]

TABLE 3

U.S. Exports to the Oil-Importing Developing Countries (percentages)

Countries	Average Annual Change	Annual Change		
	1976-80	1980	1981	1982
Newly Industrialized	25.1	33.9	4.7	-15.7
Middle-Income	18.1	30.4	11.7	-5.2
Low-Income	32.6	62.2	-4.5	-7.0

NOTE: The data exclude virtually all OPEC members, but include Mexico and other "net oil exporters."

SOURCE: Based on U.S. Department of Commerce, *Highlights of U.S. Export and Import Trade*, various issues.

TABLE 4.—UNITED STATES-THIRD WORLD ECONOMIC INTERDEPENDENCE—I

	Main U.S. GSP beneficiaries 1982 ¹	Top 11 U.S. export markets ¹	Top LDC debtor ¹
Taiwan	1	3	
Korea	2	6	3
Hong Kong	3	8	
Mexico	4	1	2
Brazil	5	7	1
Singapore	6		
Israel	7		8
India	8		4
Yugoslavia	9		12
Argentina	10		11
Thailand	11		
Chile	12		13
Philippines	13		
Peru	14		
Portugal	15		

¹ Source: Overseas Development Council's "U.S. Foreign Policy and the Third World: Agenda 1983".

TABLE 5.—UNITED STATES-THIRD WORLD ECONOMIC INTERDEPENDENCE—II (IN RANK ORDER)

Developing countries	Major U.S. markets (out of 20 largest U.S. trading partners) ¹ 1981	Major LDC Debtors 1981 ¹	U.S. bank borrowers (out of 21 major LDC borrowers) ² June 1982	Major GSP beneficiary
Mexico	3	2	1	4
Saudia Arabia	5			
Nigeria	11		18	
Taiwan	8		8	1
Venezuela	9	10	3	
South Korea	13	3	4	2
Brazil	14	1	2	5
Libya	19			
Hong Kong	16			3

TABLE 5.—UNITED STATES-THIRD WORLD ECONOMIC INTERDEPENDENCE—II (IN RANK ORDER)—
Continued

Developing countries	Major U.S. markets (out of 20 largest U.S. trading partners) ¹ 1981	Major LDC Debtors 1981 ²	U.S. bank borrowers (out of 21 major LDC borrowers) ² June 1982	Major GSP beneficiary
Algeria.....	20	6	18	
Indonesia.....	18	5	11	

Sources:

¹ Overseas Development Council, 1983.

² World Financial Markets, Morgan Guaranty Trust Co. of New York, February 1983, p. 3.

Mr. Russo. I have one question, Mr. Sewell.

What kind of criteria would you use in graduating countries out of the GSP?

Mr. SEWELL. Well, I think over this decade, that some good number of the top 15 beneficiaries of GSP should have graduated, that they should no longer be eligible for GSP, and that they should be urged in a variety of ways to be full participants in the international trading system, as the previous witness outlined.

The criteria, it seems to me, should combine both economic and political criteria—their status is in the world economy, their ability to export, their own financial system at the moment, and their strategic importance to the United States.

It is interesting when one looks at the list of top beneficiaries—and I am doing this off the top of my head—but almost every one of those countries is of strategic importance to the United States, whether it is Mexico or Brazil or South Korea or Taiwan, where we have a variety of foreign policy interests beyond the questions of trade, and one would look very carefully at that.

But most of those countries, if the international economy works decently well, should be in a position within the next 5 to 7 years to have moved out of GSP entirely.

Mr. Russo. Why would they not want to move out of GSP and compete in the world market if they have proved they can compete?

Mr. SEWELL. Well, nobody is probably going to want to move out of GSP. The question is whether they should. Most of those countries will be in a position to compete in a number of product lines in the international economy quite well, I would say, under at least two conditions: One, if there is adequate finance available to them, and I do not mean aid, I mean adequate investment capital of a variety of kinds—and if markets in the industrial world particularly remain open. And after that, you know, it is a question, Mr. Chairman, of their ability to make the correct internal decisions.

At the turn of the century the countries that were positioned almost similarly were Argentina and Australia as the sort of newly industrializing countries of that time. Most people would have bet on Argentina at that point to do very well. And there is no guarantee that countries are going to do well, but there does seem to me an obligation in our interest in a variety of senses of the word to help provide the environment to enable them to do well if they make that choice.

Mr. Russo. Of course, we have some problems with IMF, as you know, and part of the problem is that the banks are getting very fat on their loans to these poor countries with their high interest rates, and now they have literally strapped those countries and want the Federal Treasury to assist them.

Maybe if our financial institutions in the world market were not quite so greedy, we would not have some of the problems that we have with these lesser developed countries in repaying their debt.

Mr. SEWELL. Well, if you want a reaction to that, I look at the debt situation as a failure of public policy. We had after 1973 a situation of forced savings brought about by the oil price hike, and if my memory is correct, the commercial banks, were urged to recycle that money. They were urged to recycle that money because no one in any of the industrial countries could conceive of a governmental operation, whether on an international level or a national level, which would be able to transfer that amount of capital to productive use in a short period of time.

Banks, however, have to lend, as they are profit-making institutions, on a relatively short term basis. So most of that debt went out with under 10-year maturity, and we are now paying the cost of that. Most of those, a good deal of that money went for productive use, but with the payoff time much longer than the normal commercial bank lending time, it will be 10, 20, 30 years before it pays off in some cases, and now the chickens have come home to roost in that situation.

Mr. RUSSO. The gentleman from Ohio.

Mr. PEASE. Thank you, Mr. Chairman.

Just one question, Mr. Sewell.

Did I hear you mention a few minutes ago that you thought it would be appropriate for, say, the top 15 GSP countries to graduate out of GSP?

Mr. SEWELL. Over the balance of the decade, Congressman, yes.

Mr. PEASE. I understand from testimony of another witness that the top 15 beneficiary countries account for about 89 percent of all GSP duty-free imports.

Would it bother you if the GSP program were scaled back to that degree?

Mr. SEWELL. No. I am glad you raised the point. I think the concomitant of that is the whole subject of product coverage.

The issue, to be quite frank with you, I could not give you an informed answer on, is how you would change the GSP to make it more accessible to the lower tier countries. My own view is that for the very least developed countries you would have to go a long way before you are going to be able to in the next 5 years provide a set of categories under GSP that they can take advantage of. They simply do not have the capability.

If you take the middle group of countries, the nonnewly industrializing countries, I think there is room for creativity when one looks at product coverage, to enable those countries to take greater advantage of GSP. But when one looks down the list here, you have either, by most cases, the Gang of Four in the Far East or Mexico or Brazil. If the international economy works decently, those countries should do quite well.

You have on that list some large anomalies, of which India is the largest case, and if my guess is correct, doing this off the top of my head, on a list of the top 15, that is the lowest income country. And India, of course, is the anomaly because it is both a very large, very poor country, but within that large, very poor country is a virtual newly industrializing country in terms of manufacturing ability.

That is why earlier when I said the differentiation between the low-income countries and the least developed countries is by and large India and Pakistan, and that is, I think, an issue the committee should be aware of when the definitional question comes up.

Mr. PEASE. Thank you very much.

Mr. RUSSO. I thank the gentleman.

Mr. SEWELL. Thank you.

Mr. RUSSO. Our next witness is a panel made up of the International Anticounterfeiting Coalition, James Bikoff; the National Agricultural Chemicals Association, G. David Malsbary; the Office of the Chemical Industry Trade Adviser, Myron Foveaux; Synthetic Organic Chemical Manufacturers Association, Thomas J. Gray; and Rohm & Haas Co., A. J. Bartosic.

What I would suggest, gentlemen, inasmuch as the chairman would like to move this so we can cover as many witnesses before 2 o'clock, all of your statements will be printed in the record, and I would ask that each gentleman would restrict his comments to a 5-minute summary of his statement so that we can proceed through the other panels that we have.

And as soon as she puts all of the labels on, we will start.

Our first witness will be Mr. James L. Bikoff, president of the International Anticounterfeiting Coalition.

Mr. Bikoff, if you would summarize your testimony and restrict yourself to 5 minutes, we would greatly appreciate it.

STATEMENT OF JAMES L. BIKOFF, PRESIDENT, INTERNATIONAL ANTICOUNTERFEITING COALITION

Mr. BIKOFF. Thank you, Mr. Chairman.

The International Anticounterfeiting Coalition has a membership of over 100 major international corporations ranging from the manufacture of industrial products such as automobiles and chemicals and automotive parts to the makers of consumer products such as apparel and cosmetics.

Its purpose is to seek stronger laws against the growing abuses of intellectual property rights, including the selling of counterfeit merchandise.

The coalition strongly believes that Congress should amend the GSP program to reward only those countries that cooperate with the United States in protecting intellectual property rights. Commercial counterfeiting is the fraudulent practice of utilizing without authorization patents, copyrights, trademarks and trade dress in connection with products which are often of inferior quality with the purpose of tricking the consumer into purchasing those articles in the mistaken belief that they are genuine.

Counterfeiting is a growing problem that affects a wide variety of products. It is now a billion dollar business that threatens to de-

stroy the markets and good will of many of America's most successful products from blue jeans to agricultural chemicals.

The sale of bogus helicopter parts to NATO allies and American civilian fleets, like the sale of counterfeit brake linings, poses an even greater danger to the public health and safety.

Although the custom laws have been strengthened in recent years, there are inadequate deterrents at this time to the commercial counterfeiting trade.

It is important to remember that the GSP program is an aberration from the GATT principle of most-favored-nation treatment. The benefits that the United States would bestow under this program are inherently discriminatory and confer a significant trade advantage on those countries deemed eligible to receive duty-free treatment. Although we agree with the laudatory purpose of the program and support the general concept of assisting developing countries, we reject any notion that there is a right to GSP benefits.

Rather, GSP eligibility is a privilege that should be conferred only on those countries who meet the economic need criteria and who treat the commercial interests of American business with mutual respect.

The present criteria for GSP eligibility clearly reflects a congressional concern for whether an otherwise eligible country is deserving of GSP privileges. Section 502(b) currently prohibits the President from designating a country as eligible if, *inter alia*, the country has expropriated U.S. property or repudiated contracts without providing prompt, adequate and effective compensation, or if the country does not take adequate steps to cooperate with the United States to prevent trafficking in illegal drugs.

If Congress decides to renew the GSP program, it should give serious consideration to adding a further mandatory requirement for eligibility under section 502(b). Specifically, no country should be given GSP benefits if it fails to provide adequate means under its laws to secure, exercise and enforce exclusive rights in intellectual property, including measures to prevent the production, sale, or exportation of counterfeit, infringing or other unauthorized goods.

Where a developing country can demonstrate that it is making a good faith effort to institute such measures but that it has not yet firmly established them, the President should be given discretion to temporarily waive this requirement. Where a waiver is granted, however, the President should be required to submit a full report to Congress on the steps being taken by that country to insure full compliance.

It is interesting to note that of the \$8.4 billion in GSP imports in 1982, over 45 percent were exported from Brazil, Korea, and Taiwan, three of the countries most active in the production and distribution of counterfeits of U.S. products. It is apparent that the countries deriving most benefit from our GSP program are the very countries where U.S. intellectual property rights to a large extent have not been respected or enforced.

In conclusion, the International Anticounterfeiting Coalition considers the adoption of a strong, effective intellectual property provision to be one of the most important changes that Congress can make to improve the operation of the GSP program. The carrot-

and-stick approach that we have outlined could be the most equitable and effective way to combat the increasingly serious problem of counterfeiting and other intellectual property abuses.

Indeed, from the perspective of a great many American businesses, the potential leverage GSP provides over Taiwan and other advanced developing countries is the only reason that the eligibility of these countries should be continued.

I will be able to respond to any questions later, and I thank you.
[The prepared statement follows:]

STATEMENT OF JAMES L. BIKOFF, PRESIDENT, INTERNATIONAL ANTICOUNTERFEITING COALITION

INTRODUCTION

The International Anticounterfeiting Coalition ("Coalition") is a worldwide organization with a membership of over 100 major corporations of international reputation. The Coalition was formed in 1978 to stimulate stronger government measures to combat counterfeiting domestically and internationally. Since then, the interests of our group have expanded to include a concern for the enforcement and the preservation of all forms of intellectual property rights, including registered patents, copyrights, trademarks and trade secrets. I am here today to explain the severe problems caused by many of the very same "developing" countries that have been receiving special duty-free treatment under the present GSP system. While the Coalition does not oppose a renewal of GSP per se, we strongly urge Congress to condition a country's eligibility to receive GSP benefits on a showing that such country provides effective protection for intellectual property rights. Because of the importance of GSP benefits, we believe that enforcement of such a requirement would provide a most effective incentive for "problem countries" to cooperate with the United States in eliminating intellectual property abuses.

THE NATURE OF THE PROBLEM

In order to appreciate the concern of our organization about the growing threat to vital property rights of American firms, it first may be helpful to review the nature of the problem. While much of my testimony will relate to the problems faced by U.S. owners of trademark rights, please bear in mind that these problems are exemplary only, and that the unfair practices and the entrenched reluctance of foreign governments to do anything about them are just as devastating to the owners of other forms of intellectual property rights.

A. Counterfeiting Defined.

Commercial counterfeiting is the fraudulent practice of affixing a false trademark to a product, which then appears superficially indistinguishable from its legitimate counterpart. The purpose is to dupe the consumer into purchasing the counterfeit under the mistaken belief that it is the genuine article, thus defrauding the purchaser and injuring the owner of the trademark, but lining the pocket of the counterfeiter. In recent years, commercial counterfeiting, operating on an international scale, has reached epidemic proportions. The result has been not only the loss of billions of dollars to reputable manufacturers throughout the world but also the exploitation, cheating, and even physical endangerment of millions of consumers and in some instances the impairment of our national defense.

B. Counterfeiting Has Become A Serious Threat To The Financial Well-Being Of American Businesses and To The Physical Well-Being of American Consumers.

Commercial counterfeiting is not new. Examples of counterfeit marks have been preserved from Greek and Roman times. What is new is the enormously expanded scope of the problem, a function of the sophisticated technology now available to unscrupulous manufacturers and purveyors of counterfeit merchandise, enabling them to produce cheap, inferior, but superficially similar copies of a vast range of quality products and services. These include not only such "luxury" items as apparel, jewelry, cosmetics, sporting goods, motion pictures, records, tapes, tobacco products, and leather goods, but also a wide range of health and safety-related products such as drugs, fertilizers, chemicals, glasses, computer components, automobile and aircraft parts—indeed, an almost endless variety of both commercial and industrial products.

According to government sources, American consumers now spend billions of dollars every year on counterfeit merchandise masquerading as legitimate products.

Fake "Cartier" watches, for example, made with inferior parts worth only a few dollars and marketed with unenforceable guarantees are sold to unsuspecting consumers for \$300 to \$500. Whiskey purchased as a gift and labelled "Johnnie Walker Black" may actually be a vastly inferior concoction brewed in Honolulu. Expensive counterfeited jeans may fall apart after one washing, and even an everyday flashlight may not work because its battery, labelled "Eveready," may actually be one of 17 million counterfeits recently shipped out of Taiwan. Commercial counterfeiting has become so widespread that in the video industry alone an estimated \$6 billion of records and tapes are counterfeited annually, while in the fashion industry illegal profits from commercial counterfeiting reached an estimated \$450 million in 1980.

Although American consumers and American manufacturers undoubtedly comprise the largest groups of victims of commercial counterfeiting, the problem is truly international in scope. For example, it has been estimated that one of every four pairs of sunglasses and one of every five phonograph records sold worldwide is a counterfeit. In at least a few instances, an entire nation's economic well-being has been jeopardized by the effects of commercial counterfeiting. Thus, in Kenya, the economy depends on the annual coffee crop, which was virtually destroyed in 1979-80 through the application of counterfeit and defective agricultural chemicals bearing the counterfeited label of a respected American manufacturer, Chevron. Moreover, the large profits and low risks associated with commercial counterfeiting have made it increasingly attractive to the international underworld. Thus, recent evidence strongly indicates that trafficking in counterfeit merchandise is frequently associated with dealing in narcotics, counterfeit money and stolen goods, traffics notoriously linked to organized crime.

Perhaps most ominously, commercial counterfeiting now poses direct threats to health, safety, and physical well-being, and sometimes also to national defense. To give just a few examples:

In the United States, there is substantial evidence that airlines, aircraft manufacturers and even the U.S. military have been supplied with counterfeit parts that are substandard, unconforming, used or just plain scrap metal. In 1976, counterfeit transistors were discovered among parts destined for use in a test of the United States space shuttle. In 1978, substandard counterfeit parts were discovered among parts intended for use on the F-4 fighter plane and the Chapparall and Lance missile systems.

According to Bell Helicopter Co. officials, millions of dollars worth of dangerously substandard counterfeit "Sikorsky" and "Bell Helicopter" parts have been sold to NATO allies and American civilian helicopter fleets. The suspect items, including such critical flight components as transmission parts and landing gear assemblies, are believed to have been installed in at least 608 helicopters in the military fleets of Britain, West Germany, France, Belgium and at least five other American allies. Such counterfeit parts, manufactured without vital information on essential heat treatments and stress testing and sold with forged identification numbers, may already have been responsible for several helicopter accidents in the United States.

In May 1978, the Food and Drug Administration recalled 357 heart pumps used in 266 hospitals across the country. The recall was necessary because the \$20,000 intra-aortic balloon pumps, which help maintain a patient's heartbeat during open heart surgery, were believed to contain potentially dangerous counterfeit components worth about \$8 each.

As these examples illustrate, commercial counterfeiting not only defrauds the consumer but makes a mockery of governmental health and safety regulations, placing the customer's well-being, and sometimes even the nation's defense, at the mercy of a counterfeiter's greed.

THE INADEQUACY OF EXISTING SANCTIONS

As illegal conduct goes, commercial counterfeiting is considered an extremely lucrative and relatively low-risk venture. Thus far, few measures have been undertaken to curtail commercial counterfeiting, and those few have proven wholly inadequate to restrict such mammoth illicit trade.

The Coalition was primarily responsible for amendments to section 526 of the Tariff Act 1930 (19 U.S.C. 1526) which were passed by Congress in 1978. Those amendments strengthened the sanctions against imported counterfeit merchandise by providing for the seizure and forfeiture of the offending articles. Other legislative efforts and forfeiture of the offending articles. Other legislative efforts are being supported by the Coalition that would help to bring counterfeiting under control in this country. While all of these efforts are certainly worthwhile, they address only part of the problem. The real challenge, and the only hope of securing effective

relief from counterfeiting and other forms of intellectual property violations, is to attack the problem at its source: in the developing countries that account for the vast majority of such exports.

There are international agreements that purport to offer a solution to the problem of international trafficking in counterfeits. The Paris Convention for the Protection of Industrial Property, established in 1883 and subscribed to by 81 nations including the United States, declares commercial counterfeiting unlawful; but as a practical matter the Paris Convention requires only that signatory nations offer the same trademark protection to nationals of other adhering nations as they provide to their own citizens. Therefore, the protection afforded under the Paris Convention is only as effective as the individual national laws.

Another international agreement, the Madrid Agreement Concerning the International Registration of Trademarks, offers its 23 signatory countries centralized registration of trademarks. But neither the Madrid Agreement nor the Paris Convention provides any mechanism whatever for the detection or prosecution of counterfeit trademark violations, and thus neither has had any deterrent effect on the commercial counterfeiting trade.

THE BENEFITS UNDER THE GSP PROGRAM ARE A PRIVILEGE AND SHOULD BE GIVEN TO COUNTRIES THAT TREAT AMERICAN BUSINESS WITH MUTUAL RESPECT

It is important to remember that the GSP program is an aberration from the basic GATT principle of most-favored-nation treatment. The benefits that the United States bestow under this program are inherently discriminatory and confer a significant trade advantage on those countries deemed eligible to receive duty-free treatment. Although we agree with the laudatory purpose of the program and we support the general concept of assisting developing countries, we emphatically reject any notion that there is a "right" to GSP benefits. Rather, GSP eligibility is a privilege that should be conferred only on those countries who meet the economic need criteria and who treat the commercial interests of American business with mutual respect.

The present criteria for GSP eligibility clearly reflects a Congressional concern for whether an otherwise eligible country is deserving of the GSP privilege. Section 502(b) currently prohibits the President from designating a country as eligible if, *inter alia*, the country has expropriated U.S. property or repudiated contracts without providing prompt, adequate and effective compensation, or if the country does not take adequate steps to cooperate with the United States to prevent trafficking in illegal drugs.

If Congress decides to renew the GSP program, it should give serious consideration to adding a further mandatory requirement for eligibility under section 502(b). Specifically, no country should be given GSP benefits if it fails to provide adequate means under its laws to secure, exercise and enforce exclusive rights in intellectual property, including measures to prevent the production, sale or exportation of infringing or otherwise unauthorized goods. Where a developing country can demonstrate that it is making a good faith effort to institute such measures, but that it has not yet firmly established them, the President should be given discretion to temporarily waive this requirement. Where a waiver is granted, however, the President should be required to submit a full report to Congress on the steps being taken by that country to ensure full compliance.

The Coalition has every reason to believe that conditioning GSP eligibility on the protection of intellectual property rights would, if conscientiously enforced, prove to be a most effective weapon against the widespread abuse of such rights. Among the major beneficiaries under the GSP program are countries like Taiwan, South Korea, Brazil, Columbia, Indonesia and the Philippines. These countries happen also to be the source of much of the counterfeit goods wreaking havoc in the U.S. and world markets. It is interesting to note that of \$8.4 billion in GSP imports in 1982, over 45 percent were exported from Brazil, Korea and Taiwan, three of the countries most active in the production and distribution of counterfeits of U.S. products.

As the economies of these countries become increasingly geared to export earnings to finance their modernization efforts, anything that jeopardizes their competitive edge obtained under GSP must be taken seriously. By adding a strong intellectual property rights requirement to GSP eligibility, the United States would be making wise use of the tremendous leverage it has under this program to force these problem countries to assume the obligations of responsible trading partners.

The need to condition GSP eligibility on the protection of intellectual property rights is even greater where the "advanced developing countries" are concerned. The Administration proposal to grant waivers under the "competitive need" limita-

tions on certain articles pursuant to section 504(c) should be even more strictly controlled than the country eligibility requirements under section 502(b). Thus, Congress should require that before any such waiver could be granted by the President, there should be an opportunity for public notice and comment. This would enable the owners of American patents, trademarks, copyrights or trade secrets to voice their opposition to a particular waiver if the country involved has failed to give adequate protection to such intellectual property rights. Where a record of strong opposition to a competitive need waiver is made, the President would be in a stronger position vis-a-vis that country to extract some meaningful reforms before granting the waiver. If the country persists in its refusal to respect intellectual property rights then the President should be required to withdraw or suspend the eligibility of the country as a whole pursuant to section 504(b).

CONCLUSION

The International Anticounterfeiting Coalition considers the adoption of a strong, effective intellectual property provision to be one of the most important changes that Congress can make to improve the operation of the GSP program. The "carrot and stick" approach that we have outlined could be the most equitable and effective way to combat the increasingly serious problem of counterfeiting and other intellectual property abuses. Indeed, from the perspective of a great many American businesses, the potential leverage GSP provides over Taiwan and other "advanced developing countries" is the only reason that the eligibility of these countries should be continued.

Mr. PEASE [presiding]. Thank you very much, Mr. Bikoff.
Mr. Malsbary, do you want to begin?

STATEMENT OF G. DAVID MALSARY, CHAIRMAN, FOREIGN AFFAIRS COMMITTEE, NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION, AND GENERAL MANAGER, MARKETS, MONSANTO AGRICULTURAL PRODUCTS CO., ACCOMPANIED BY M. BOYD BURTON, JR., VICE CHAIRMAN, FOREIGN AFFAIRS COMMITTEE, NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION, AND GENERAL MANAGER, BIOCHEMICALS DEPARTMENT, E. I. DU PONT DE NEMOURS & CO.

Mr. MALSARY. Mr. Chairman, I am general manager of marketing for Monsanto Agricultural Products Co. Appearing with me is Dr. Boyd Burton, Jr., general manager, biochemicals department, E. I. du Pont de Nemours & Co. We are representing the National Agricultural Chemicals Association.

We have a written statement for the record which has been submitted and I would like to briefly touch on its major points. Briefly, we are concerned about beneficiaries of GSP pirating our technology and injuring our businesses in world markets. Simply stated, we want this piracy to stop.

Crop protection chemicals are high technology research-intensive products, with each single new product taking 10 years to develop and costing up to \$40 million before commercialization can occur. When developed, these proprietary products are patented widely around the world. Such protection is critical to the recovery of large R&D expenses involved and for the substantial investment risks.

Without such strong protection, these products are very susceptible to imitation by pirate producers. The products of our association members are important to U.S. exports, producing an annual positive trade balance of \$1.25 billion, and they are also an area of technology where America is still a leader.

Unfortunately, there are some developing countries which provide under their laws and practices no practical protection for our proprietary products. Patent protection is not available or it is extremely weak, and enforcement of those rights obtainable is practically nonexistent. With the acquiescence of these governments, if not their encouragement, pirate agricultural chemical producers have sprung up in these enclaves which copy our proprietary products and sell imitations in our markets around the world, causing great disruption.

It is ironic, indeed, that the very countries which cause us the most damage are among the greatest beneficiaries of the GSP program. One Asian country, for example, which receives over one-quarter of all GSP benefits, and yet it is universally acclaimed as a pirate capital of the world. The volume and variety of the illicit products coming from that country far surpass any other problem nation.

However, a large number of other GSP beneficiary countries have serious intellectual property rights deficiencies, and this strongly encourages pirate producers, wherever they are located.

GSP reauthorization offers us an opportunity to try and improve this situation. In our view, the key is to go back and clarify one of the two major purposes of the GSP program. Everyone has focused on economic development through trade. Little attention has been given to the second intention of the GSP program, trying to bring the trade practices of these countries up to acceptable standards so we do not help create economically strong international trade bandits which can prey upon American high technology industries.

The principle is especially true for the more developed GSP beneficiaries, who have the capability to reproduce our technologies. It is time to shift the focus for these countries to trade practices and get serious about trying to encourage meaningful change.

GSP benefits can be a powerful lever to encourage developing countries to improve their laws and practices concerning trade. Access to the large and lucrative U.S. market on preferential terms is something of great value. It is time we began to ask, if not demand, that recipients of these benefits provide a reasonable level of fair treatment for American industry in their countries.

In our written statement, the National Agricultural Chemicals Association has proposed the provision of reasonable protection for intellectual property rights be seriously considered in determining whether and to what extent GSP benefits should be granted to a country and to its products.

Although we have offered some legislative language in our written statement, we hesitate to be very specific at this time because we are uncertain as to the shape of the revised program. However, some points appear to be basic. Beneficiary countries should know clearly up front that adequate property rights protection must be provided, with satisfactory enforcement measures as a prerequisite to granting benefits.

Congress must provide clear guidelines in the legislation to the Executive as to how this subject must be considered and the weight to be given it. It should also provide a mechanism so it can be assured the USTR has followed the letter and the intent of the statute. Without this, there is a chance some future administration

may develop or may decide to give these serious problems scant consideration, as has sometimes been the case in the past when U.S. trade interest was given little weight.

Recognizing some countries may have to amend their laws on property rights, provision should be made for a temporary waiver that would allow them to participate in the GSP program for a reasonable period of time while they are making appropriate changes. However, a waiver of property rights provision should only be granted on firm specific commitments to improve the property rights gained by USTR in negotiations.

These assurances should be reported to Congress so the nature of them will be known. Provisions should be made for the consideration of property rights issues in determinations of country, sector and product eligibility in any level of benefit considerations, so that possible sanctions or benefits can be made to fit the property rights problems of that country.

It is our hope no country would lose GSP benefits under our proposal. We believe the USTR would hold negotiations with these countries and they would recognize that fair treatment of U.S. industry is in all of our benefit.

Thank you. If the committee has any questions we would be happy to try to answer them.

[The prepared statement follows:]

STATEMENT OF G. DAVID MALSBAR, GENERAL MANAGER, MARKETS, MONSANTO AGRICULTURAL PRODUCTS CO., AND CHAIRMAN, FOREIGN AFFAIRS COMMITTEE, NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION

SUMMARY

The National Agricultural Chemicals Association (NACA) represents U.S. producers of agrichemicals, one quarter of which are exported. These products are patented, research intensive, proprietary products and represent for the United States an export opportunity of about one and one-quarter billion dollars annually. The industry has been plagued in its export market by imitation products from some of the advanced developing countries. These countries do not offer patent and other intellectual property protection for innovative U.S. products and have encouraged the development of local pirate industries which produce them. These industries copy U.S. technology and flood their own and third country markets with imitation products, thus unjustly profiting at our country and companies' expense. At the same time the most notorious pirate countries are among the countries which benefit the most from GSP duty free treatment of their exports to the United States.

The GSP legislation was drafted first to encourage economic development and free trade. The second purpose, and one which has been largely forgotten, was to liberalize the trade policies of developing countries and encourage their integration into the international trading system with all its attendance responsibilities. One of the attributes of that system is protection of intellectual property rights—patents, trademarks, copyrights, trade secrets, proprietary registration data, and the like. NACA believes that any revision of GSP legislation should emphasize the goal of improving trade practices, especially with respect to advanced developing countries. Eligibility to take advantage of valuable GSP duty free treatment should be clearly conditioned upon the commitment of the benefitting countries to provide reasonable means for U.S. companies to protect their intellectual property rights. The extent of any benefit should also be determined in light of these factors.

STATEMENT

Mr. Chairman, I am Dave Malsbary, General Manager, Markets, of the Monsanto Agricultural Products Company and Chairman of the National Agricultural Chemicals Association (NACA) Foreign Affairs Committee. I am accompanied by Dr. M. Boyd Burton, General Manager, Biochemicals Department, of E. I. du Pont de Nemours & Company and Vice Chairman of the NACA Foreign Affairs Committee. I

appear today on behalf of NACA, which represents 100 companies in the United States which produce, formulate and sell agrichemicals on a worldwide basis. At least 40 of our companies are engaged in extensive, expansive research and development. These R&D activities require not only a very large investment, but also protracted, expensive health and safety testing to obtain government registration and market development work in the United States and abroad. The development of a single new agrichemical can take ten years and cost up to \$40 million just to develop and register. As a consequence, property rights in these high technology proprietary products are critical. This is especially true in foreign markets. About one quarter of our sales are in foreign markets and this creates a positive trade balance for the United States of \$1.26 billion.

Yet, it is in these very important foreign markets where we have experienced great difficulties with private producers who copy our technology, piggyback our registrations and marketing efforts and unjustly profit at our and America's expense.

Unfortunately, many of the countries which benefit substantially from the GSP program are countries in which pirate agrichemical operations flourish with the acquiescence, if not the encouragement, of the local government. These governments should be encouraged to eliminate unfair trade practices and come into the mainstream of world trade. This is where a revised GSP program could be very helpful.

THE PROGRAM

The ability to sell products into the large and lucrative U.S. market totally duty free gives lesser developed countries (LDCs) a significant advantage over our most favored trading partners who enjoy GATT MFN status and an even greater advantage over other U.S. trading partners who pay the higher statutory rate. No surprisingly, GSP trade has grown to cover 3,000 products from a large number of LDCs and the volume of the trade has risen from \$3 billion initially to \$8.4 billion in 1982.

The original GSP program conditioned designation of a "beneficiary developing country" on certain criteria, many designed to assure that the countries were truly in the lesser developed class. However, other criteria concern whether the countries treat the United States and U.S. entities in a fair and reasonable manner. For example, a country cannot be designated if it fails to accept arbitration awards in favor of U.S. companies, or expropriates U.S.-owned property. Further, in determining whether to designate a country as a beneficiary, the President must consider whether the country provides equitable and reasonable access to the markets of that country, among other things.

BENEFICIARY COUNTRIES

Since the inception of the program, a few of the more advanced developing countries have accounted for the bulk of GSP imports. The primary beneficiary by a large margin has been Taiwan, but also benefitting significantly are countries such as Korea, Mexico and Brazil. Out of the total of \$8.4 billion in GSP imports, Taiwan accounted for \$2.3 billion or 27.7%; Korea \$1.1 billion or 12.9%; Mexico \$559 million or 7.1%; and Brazil \$563 million or 6.7%.

The purpose of this legislation was primarily to assist in the economic development of LDCs and it has been clearly successful with respect to the more advanced LDCs. This program has served this very important purpose. Over the years, certain products have been dropped from GSP eligibility for these countries as the level of economic development has improved and the economic competitiveness on the specific products has improved. This has not prevented advanced LDCs from continuing to benefit significantly from the GSP program. Indeed, there are good reasons to encourage their further benefit from participation and this goes to the second set of purposes for GSP. In addition to encouraging their economic development, the program was written to encourage the liberalization of their trade policies and their integration into the international trading system with its attendant responsibilities. The program has not been successful in significantly reducing trade barriers and improving trade practices.

The later aspects of GSP, trade liberalization and adherence to minimal trade standards, have become increasingly important in recent years. These advanced countries represent a growing market for U.S. products which could become substantially greater assuming fair access to that market. Moreover, the advanced countries are increasingly able to compete with the U.S. in third country markets and, thus, their adherence to basic fair practices is important to U.S. trade in those areas. Revised GSP procedures could encourage this.

There are other good reasons to continue GSP treatment of these advanced LDCs, such as the need to generate increased foreign exchange to meet international debt obligations, many of which are owed to the U.S.

INTELLECTUAL PROPERTY RIGHTS AND THE ADVANCED DEVELOPING COUNTRIES

Intellectual property rights—patents, product identification such as by trademarks and trade dress, copyrights, and trade secrets such as proprietary registration data, have become increasingly important to U.S. industry in recent years. These rights protect the innovations which are the result of our extensive research, development and marketing efforts and of American artistic and intellectual genius. The public benefits from the creativity thus stimulated and the system of product identifiability thus created. As our economy has moved to higher technology exports, both "hardware" and "software," the recognition and protection of these rights abroad have become more important to our ability to maintain and increase our export sales.

In the developed world, U.S. companies generally have little difficulty securing their patents, trademarks, copyrights, etc., with local authorities and with enforcing the rights thus obtained. However, in the developing world, where an important market lies, the rights obtainable are limited and enforcement is difficult at best. Nowhere is this more apparent or troublesome than in the advanced LDCs, the very countries which benefit the most from our concessionary GSP program.

The lack of adequate protection for U.S. intellectual property rights in LDCs include such things as: broad areas of invention not subject to patent coverage, such as chemical products or pharmaceuticals; patents of narrow scope which can be easily circumvented; compulsory licensing and forfeiture provisions for patents; extremely short patent life; unreasonable limits on use of U.S. trademarks; free benefit of U.S.-developed registration data to LDC manufacturers; and general lack of effective copyright protection. In addition to the problems in obtaining local recognition of these rights, there are a wide range of problems in enforcing locally the rights which can be obtained. These include: protracted delay in proceedings with no interim relief available to the U.S. company whose rights are being infringed; practically impossible burdens of proof; inability to gain access to infringer's records to obtain evidence of infringement or prove damages; extremely low damages which do not deter infringement; and similar problems.

The practical result of this lack of reasonable protection of U.S. rights is twofold: (1) U.S. companies lose access to the market in the advanced LDCs, where local companies can unjustly profit from U.S. innovations and, together with restrictive import policy, in effect expropriate them; and (2) more importantly in many instances, the advanced LDCs become pirate enclaves from which counterfeits and imitations of U.S. products are manufactured and flow into third world markets. This not only costs U.S. innovators immediate export sales, but also may damage the image of our products because of the shoddy quality of the imitations and thus cost us future sales. Trying to track down and bring successful legal actions against these illicit goods at the multiple points of sales in numerous countries around the world is a next to impossible task, especially for smaller U.S. companies.

The extent of counterfeiting and patent piracy is difficult to measure, because the activities are conducted to a large measure in private and are difficult to assess; however, all indications are that these activities are extremely large and growing. The Automotive Parts and Accessories Association quotes Automotive News that piracy in the automotive industry alone is costing the United States \$12 billion in sales. Other estimates mentioned in the press indicated losses in the U.S. to counterfeit merchandise, most of which come from the advanced LDCs, of \$16 billion. Agri-chemical and pharmaceutical companies cannot even begin to estimate their losses to infringing and look-alike products from advanced developing countries, but we are convinced they are in the multiple millions of dollars. One measure of the scope of these activities is to look at the number and character of U.S. industries affected. In addition to the industries mentioned above, significant problems have been reported by the machine tool builders, the electronics industry, the sporting goods industry, the publishing, motion picture and recording industries, aircraft parts suppliers, the high fashion jewelry and clothing industry, credit card companies, and others.

Even in the less advanced LDCs, a reasonable level of protection for U.S. intellectual property rights would assist in stemming the flow of illicit copies of U.S. innovations which generally come from more advanced LDCs. With significantly improved protection in both types of LDCs, this problem can be eliminated.

REFINEMENT OF THE GSP PROGRAM

In the period of time since the late 1960's and early 1970's when the GSP program was developed, changes have occurred in international trade and especially in the United States' role in that trade. One of the more significant changes is the U.S. shift away from basic, heavy manufactured goods toward higher technology products and services. This shift makes intellectual property protection much more important to U.S. economic interests. It also should be noted that the days where we could be very generous with little thought of our short and medium term interest are over. These points indicate that certain modifications of the GSP program are necessary.

While it is recognized that the primary thrust of the GSP program should remain economic development of the third world through trade, increased emphasis should be given to those aspects of the program designed to encourage "equitable and reasonable access to the markets" of the beneficiaries and to discourage trade distorting practices such as failure to provide adequate protection for intellectual property resulting in patent piracy, counterfeiting and copyright infringement. This is especially true for the more advanced countries which are developing rather well economically. It would be inconsistent with the trade and political interests of the United States to encourage the development of an economically strong and competitive country which does not abide by the basic rules of fair trade.

In suggesting amendments to the GSP authorization statute which will encourage beneficiaries to offer protection of U.S. intellectual property rights from local abuse, certain criteria should be considered:

Participation in the program in a meaningful way by advanced developed countries is necessary, if they are to be influenced to improve their trade practices.

It is desirable that countries know in clear, unequivocal terms, up front, that their trade laws and practices, especially those concerning the protection of intellectual property, will be a major factor in the determination of their participation in the GSP benefits.

While it is recognized that the President (USTR) must have room to negotiate, Congress should provide clear guidelines in the statute and legislative history as to the subjects to be considered and the weight to be given them. It is not sufficient that the current USTR indicates they will cover these concerns in administrative procedures and mechanisms, operating from a broad statutory authorization. A future administration and USTR may have entirely different ideas.

Recognizing that substantial changes in a country's property rights scheme may take some time, it is necessary that reasonable allowance should be made for a phase-in. Benefits should not be denied during this limited period if there is genuine commitment to improve the situation and appropriate steps are being taken. However, any such waiver should be very specific. It should fully assure that adequate commitments have been made. For example, it should require that the President report such assurances to the Congress. No general foreign policy waiver should ever apply to this requirement that Americans be treated fairly and reasonably.

Whether a country offers a reasonable level of protection to intellectual property rights should be a criterion for eligibility, along with those currently set forth primarily in Sections 502 (b) and (c). The amendment covering this should go into the mandatory criteria. It is fundamental to fair dealing with the U.S. Moreover, the practices of which we have complained are not dissimilar to the taking of tangible U.S. property currently treated in the statute under the mandatory criteria section. These criteria should also apply to the spectrum of deficiencies in industrial property rights protection which can vary from wide areas of innovation left unprotected with virtually no enforceability (Taiwan) to much less serious and more narrow problems which may only affect a single industry (no agricultural product patent protection in Colombia). It would be valuable to also be able to examine the latter type problems in the course of an annual review of product eligibility, graduation, etc., conducted by the USTR under § 504. Therefore, § 504(a) concerning authority to review articles and countries for eligibility should be expanded to include consideration of less serious property rights problems which may serve as practical barriers to doing business or otherwise distort U.S. trade.

Product-by-product, or sector-by-sector negotiations between the USTR and a beneficiary country may be an appropriate place, in some cases, to raise intellectual property rights problems. If there is a serious counterfeiting problem in a GSP eligible product, negotiations for the GSP benefits for that product would be an appropriate place to consider the counterfeiting problem. Action could be taken against the product line being counterfeited, directly affecting the counterfeiters and their suppliers and industry associates, bringing local pressure on them. However, such

an approach can be problematic in areas of industry where there are no GSP imports to the U.S. If there are serious patent piracy and counterfeiting problems in agrichemicals in a country affecting U.S. exports, and there are no GSP chemical imports to the U.S., against what unrelated product lines do you threaten or take action? Selection of a line of unrelated products against which action is proposed may provide problems with domestic importers who are affected. They could object that their industry had absolutely nothing to do with the problem. In these cases, the negotiations should rightly concern general eligibility if the problem is serious enough and not necessarily products and sectors of products.

The ability to reward countries for eliminating trade barriers and trade distorting practices by adjusting competitive need limits, can be a very useful new authority for the USTR in its negotiations. Proposals to establish a three tier competitive need guideline system and to broaden the provisions of §504(c) are a possible approach. In this manner, the USTR would have a full arsenal of authorities to work with in negotiations, including country eligibility, product eligibility and levels of concessions.

NACA PROPOSALS

NACA hesitates to offer specific statutory language to accomplish what has been outlined at this time, not knowing how the statute may be reshaped. However, one possible approach would be to insert a new Section 502(b)(7) as follows:

New section 502(b)(7)

If such country fails to provide under its laws adequate and effective means for foreign nationals to secure, exercise and enforce exclusive rights in intellectual property, including patent, trademark and copyright rights, unless the President receives assurances satisfactory to him that the country is taking appropriate steps within a reasonable timeframe to provide such means and he reports those assurances to the Congress.

Of course, other adjustments of the statute may be necessary to provide, for example, for inclusion of these considerations in product and sector negotiations, or in consideration of the level of benefits provided under any tiered systems of benefits. NACA would be happy to work with the Committee in drafting appropriate language as the Reauthorization Bill begins to take shape.

CONCLUSION

It is our firm hope that no country would lose GSP benefits under the proposal we have offered. None should. Indeed, if any do, our proposal will have failed to achieve its purpose.

NACA would envision that the USTR would enter into negotiations with problem countries concerning the prompt provision of reasonable protection of U.S. intellectual property rights. NACA thinks that these countries will recognize that access to the U.S. market on concessionary terms carries with it attendant responsibilities to treat Americans fairly in their countries and will agree to take reasonable steps to begin protecting U.S. intellectual property rights. Of course, for such negotiations to succeed, the countries must believe we are serious about this matter, and a strong mandate from Congress would greatly assist in this regard as would a firm attitude of the part of the USTR.

Mr. Russo [presiding]. Thank you very much.

The committee will stand in recess until 10 after 12. We have a vote on right now.

[Recess.]

Chairman GIBBONS. Again I say to the panel of witnesses, this is an extremely busy day and of course a very important subject. I apologize for all of the interruptions. I promise you there will be some more.

Mr. Foveaux.

**STATEMENT OF MYRON T. FOVEAUX, DEPUTY TRADE ADVISOR,
OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR, ON
BEHALF OF THE CHEMICAL MANUFACTURERS ASSOCIATION
AND THE SYNTHETIC ORGANIC CHEMICALS MANUFACTURERS
ASSOCIATION**

Mr. FOVEAUX. My name is Myron Foveaux. I am speaking on behalf of the Chemical Manufacturers Association and the Synthetic Organic Chemical Manufacturers Association.

In 1982, chemicals valued at \$400 million entered the U.S. duty-free from countries eligible for GSP treatment. GSP has provided significant benefits to some of the approximately 140 designated beneficiary countries and territories.

It should be said at the outset that our industry believes that the Office of the U.S. Trade Representative has been generally responsive to the concerns which the U.S. industry has expressed during the annual reviews of GSP. Nevertheless, we believe that some significant revisions should be made so that the program more closely fulfills its intent and its administration is improved. In addition, there is a need for greater and more timely responsiveness to the interests of domestic producers.

This morning I would like to outline briefly what we believe are the more significant problems associated with GSP as it is currently administered. I shall also comment on what we understand to be the administration's proposals to address these problems. We will provide greater detail, Mr. Chairman, in a written statement to be sent to the Subcommittee later.

Chairman GIBBONS. It will be made part of the record when it arrives.

[The material referred to follows:]

**SUPPLEMENTAL WRITTEN STATEMENT OF THE CHEMICAL MANUFACTURERS ASSOCIATION
TO THE ORAL STATEMENT OF MYRON T. FOVEAUX, DEPUTY DIRECTOR, OFFICE OF THE
CHEMICAL INDUSTRY TRADE ADVISOR ON BEHALF OF THE OFFICE OF THE CHEMICAL
INDUSTRY TRADE ADVISOR**

On August 3, 1983, Myron T. Foveaux, Deputy Trade Advisor for the Office of the Chemical Industry Trade Advisor, testified before the Subcommittee on behalf of the Chemical Manufacturers Association (CMA) and the Synthetic Organic Chemical Manufacturers Association, Inc., regarding the renewal of the Generalized System of Preferences. In his testimony Mr. Foveaux said that a separate written statement would be sent to the Subcommittee to provide it with greater detail than was contained in his oral statement. This document provides the subcommittee with the written comments of CMA to supplement Mr. Foveaux's statement.

I. INTRODUCTION

The Generalized System of Preferences grew out of a recognition by industrialized countries of an imbalance in the relative wealth of the countries of the world, many of which had gained independence for the first time in the wake of World War II. This imbalance threatened to worsen unless the industrially developed countries adopted certain programs which would enable their less fortunate neighbors to raise their level of economic activity and enter the world markets with a growing variety of manufactured goods. The proceeds from such accelerated trade could lessen the need for external assistance, raise the developing countries' internal standards of living, and create a better economic balance among developed and developing countries.

It is for this reason that the United States and several other industrialized countries adopted a preferential tariff system vis-a-vis imports from designated developing countries. In the United States, this system takes the form of the GSP Program.

It was the intent of this Program from the beginning, however, that economic advantages would not be offered to developing countries at the expense of established U.S. industry.¹ In 1980, there was a mid-term assessment of the efficacy of the GSP Program, resulting in a report from the President to the Congress² and changes in the administration of the Program. However, these changes have not adequately addressed existing problems.

On July 22, 1983, the Administration sent to Congress a proposal to renew the authority for GSP, which is scheduled to expire on January 3, 1985. As outlined in your press release dated July 21, 1983, the Administration proposal suggests that the President continue to be guided by the following principles in making GSP eligibility decisions:

- (1) The development level of individual beneficiaries;
- (2) The beneficiary country's competitiveness in a particular product;
- (3) The overall interests of the United States;
- (4) The effect such action will have on furthering the economic development of developing countries;
- (5) Whether or not the other major developed countries are extending generalized preferential tariff treatment to such product or products;
- (6) The anticipated impact of such action on United States producers of like or competitive products; and
- (7) The extent to which the beneficiary country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country.

CMA agrees that these principles are important. We do not believe, however, that the specific proposals offered by the Administration address these principles.

CMA believes that the overriding problem with the present GSP Program is that it allows for too much discretion by the Administration in its implementation. Following are examples of areas where this problem arises, which will be discussed in detail herein:

1. No provisions currently remove permanently or graduate articles or entire product sectors from GSP benefits.

2. The dollar value limit necessary to trigger temporary suspension of benefits (that is, the competitive need limits) have become excessive. Additionally, there are no requirements which prevent an article from repeatedly being reinstated only to exceed the competitive need limits every other year.

3. The extension of GSP benefits to multiple article classifications of the Tariff Schedules, more commonly called "baskets," has provided GSP benefits to certain articles which should not receive them.

The Administration's proposal on the reauthorization of GSP does not adequately address any of these issues. Instead, the Administration's proposal, if enacted, would create even more discretion in GSP decisions and lead to greater deficiencies in the Program.

Following are CMA's recommendations for alleviating the existing problems with the GSP Program and a discussion of the inadequacies of the Administration's proposal in each case. Since CMA represents many companies and product lines, these recommendations, of necessity, address broad issues of generic concern to our member companies. Specific product concerns with the GSP Program are more appropriately addressed by individual companies.

II. GRADUATION

A. Problem

The GSP, as administered, does, indeed, provide significant benefits to some of the roughly 140 designated beneficiary countries and territories. Nevertheless, the distribution of these benefits has been highly uneven, with seven of the more advanced developing countries accounting for at least three quarters of all GSP imports.

The unevenly distributed benefits under the Program gave rise to considerable criticism in industry and the Congress. These inequities also caused the Administration, as a result of the Five Year Report, to initiate a graduation program designed to remove beneficiaries which have reached a level of economic growth and industri-

¹ 19 U.S.C. § 2102(4); 15 C.F.R. § 2007.1(a)(5)(viii) and § 2007.2(e); S. Rep. 93-1298, 93d Cong., 2d Sess., reprinted in [1974] U.S. Code Cong. & Ad. News 7353; and President's Report to the Congress on the first five years' operation of the U.S. generalized system of preferences (GSP), 96th Cong., 2d Sess. (W.M.C.P.: 96-58, 1980) [hereinafter Five Year Report], at 64.

² Five Year Report.

al diversification sufficient to render them competitive in the international trading system.

Since 1981, graduation has become part of the Administration's annual review process. However, CMA believes that the graduation measures have been inadequate and far too slow to bring about the desired redistribution from the more advanced developing countries to the less advanced ones.

The existing GSP statute³ contains no requirement for permanent graduation of either articles and/or product sectors from a country or of the entire country for all product sectors. Likewise, the Administration proposal does not address the issue of graduation at all.

Without specific graduation criteria, such as those we propose below, the U.S. industry is unsure of the appropriate proof necessary to demonstrate to the Administration that graduation of an article, product sector, or country is in order. As a result, industry must provide exhaustive detail which is costly in time and money and, in return, produces data which may be superfluous to the Administration's graduation decisions. Likewise, a developing country faces difficulties in planning its marketing strategy for increased industrialization if it cannot be given firm guidelines for graduation from the U.S. GSP Program.

B. Recommendations

The graduation process should be made subject to specific standards that involve less administrative discretion. Those standards should provide that an article⁴ from a GSP beneficiary country would, upon petition by a U.S. company or industry producing such an article, be graduated from GSP treatment when preferential access is no longer needed.

More specifically, the standards should provide that a *prima facie* case of graduation is made in any of the three situations described below, whichever occurs first in a given calendar year. Furthermore, a showing of injury by U.S. industry should not be required under these standards:

a. *Graduation on a sectoral basis.*—Articles in a product sector from a given beneficiary country should be graduated from GSP benefits when, in any one calendar year, imports in that "product sector" (as defined by the two-digit SIC "major group" code) from that country exceed a set percentage of total value of imports of articles in that product sector from all countries, or exceed a set dollar amount (indexed to the U.S. Gross National Product (GNP)); or

b. *Graduation on an article/product basis.*—(1) A beneficiary country should be removed from the group of eligible countries with respect to an article (as specified by a seven-digit TSUSA number) when, in any one calendar year, it exports to the United States a quantity of that article exceeding a specified amount⁵ adjustable to the U.S. GNP; or

(2) A beneficiary country should be graduated from GSP benefits with respect to an article when, in any one calendar year, it imports into the United States quantities of the article sufficient to cause the import penetration ratio⁶ of that article from that country to increase by five percentage points or more over the import penetration ratio for either of the two preceding years. Moreover, if all GSP beneficiary countries export to the United States during one calendar year a quantity of any article sufficient to cause the import penetration ratio of such article from all GSP beneficiary countries to increase by ten percentage points or more over that import penetration ratio in either of the two preceding years, all GSP beneficiary countries should be graduated from GSP treatment with respect to that article.

These recommendations are made for the following reasons: First, CMA believes that a reduction of the considerable administrative discretion existing in the GSP Program is necessary. GSP procedures are very informal and provide a great deal of discretion to the decision makers. There are no published rationales for decisions,

³ 19 U.S.C. § 2461, et seq.

⁴ "Articles" (or "products") by the practices of the Office of the U.S. Trade Representatives (USTR), have been items, as defined by a five-digit classification number listed in the Tariff Schedules of the United States (Annotated) (TSUSA). This five-digit TSUSA item could be either a single unique article or could be a "basket" category (see definition in footnote 9) containing numerous items which are similar in nature. For purposes of discussion in this paper, "article" is generally defined to be a single chemical, individually and specifically provided for by a seven-digit TSUSA number or isomers of a single chemical individually and specifically provided for.

⁵ This amount should be in excess of the amount specified in Recommendation 2 under competitive need on page 8.

⁶ "Import penetration ratio" is defined as the dollar value of imports of an article as a percentage of the value of domestic production of the article.

no methods of appeal, and vague, if any, graduation criteria. This makes it very difficult, time consuming, and costly for U.S. companies successfully to pursue a graduation procedure. Establishing specific criteria, such as those we recommend, under which graduation would occur would provide much needed certainty to U.S. industry as to graduation requirements, while at the same time ensuring that the GSP benefits would be granted to the less-developed countries and not to competitive ones.

Second, CMA believes that the three *prima facie* standards recommended above provide appropriate tests for determining which countries are competitive on a sectoral or an article basis and which should, therefore, be graduated from the GSP Program so that benefits can be channeled to non-competitive beneficiary developing countries.

The two-digit SIC major group code method for graduation on a sectoral basis has already received considerable attention, as it was contained in S. 1150, introduced by Senators Heinz and Moynihan on May 8, 1981. As indicated in the statement made by Senator Heinz upon introduction of the bill (127 CONG. REC. S. 4643 (daily ed. May 8, 1981)), the two-digit SIC code is the appropriate method to: "eliminate GSP treatment for the advanced sectors of an economy which are internationally competitive, yet retain GSP eligibility for a nation for other sectors of its economy, thus retaining intact the principle that the benefit of duty-free importation should be concentrated in areas that are not yet able to compete with industrial economies on equal terms."

Examples of two-digit SIC codes are: 01—agricultural crops; 20—food; 24—lumber and wood; 28—chemicals and allied products; and 36—electrical machinery. We believe that such two-digit SIC codes are sufficiently explicit, yet, at the same time, broad enough to define a sector of industry for purposes of reviewing GSP benefits.

The significant changes we recommend concerning graduation on an individual article basis involve graduation decisions made at a seven-digit TSUSA, and not a five-digit, level and the use of specific import penetration ratios as triggering graduation.

CMA believes that graduation on an individual article basis should occur at the seven-digit TSUSA level and not the five-digit level, as is the current practice. The descriptions of many five-digit TSUSA items are so broad that they do not, in actuality, describe a specific product, but rather a range of products [e.g., "other" (TSUSA item 428.12) under the descriptive phrase of "alcohols, monohydric, unsubstituted"]. Therefore, the seven-digit level with its added specificity of designation is more appropriate for graduation decisions on individual articles.

CMA believes that an alternative method for individual article graduation should be the linkage between the continuation of GSP benefits and a percentage of import penetration. It is difficult to arrive at a specific import penetration figure which will always be the appropriate one to consider. However, we believe that the five and ten percent figures we recommend will be generally useful. This is especially true in view of the fact that the International Trade Commission has usually looked for five percent import penetration in injury investigations alleging injury due to high import levels.

It must be stressed that the three suggested graduation standards proposed herein by CMA are alternatives; graduation should occur whenever any one of the three arises. Also, the withdrawal of GSP benefits should, of course, still be available in other situations, upon a showing of import sensitivity (see p. 11).

III. COMPETITIVE NEED

A. Problem

The so-called "competitive need"⁷ limits were included in the Program from its inception due to an awareness that the GSP was not intended to aid imports which

⁷ The GSP statute stipulates that the competitive need limit on any imported item is exceeded when either of two conditions occur during a calendar year. The first condition is met any time the dollar amount of any given five-digit TSUSA item exceeds a value which bears the same relation to \$25 million as the GNP of the United States for the preceding calendar year bears to the GNP of the United States for the calendar year 1974. The second, and more commonly used, condition is met when any one country accounts for more than 50 percent of the dollar value of the imports of any given five-digit TSUSA item. If either condition occurs, GSP benefits are suspended on all imports from the given country for the specific five-digit TSUSA item for the following calendar year. During the one-year suspension, if the competitive need limit is not exceeded, GSP benefits can be reinstated. Permanent graduation occurs only at the discretion of the USTR. While some items have been graduated since 1981, the vast majority continue to be reinstated. As stated herein, CMA favors the removal of discretionary authority toward graduation.

encountered essentially no threat from other more developed producing countries. The limits were also intended to deny GSP benefits to any article which entered the U.S. market in such large volume as to indicate by its sheer size alone that the exporting country had reached a stage of industrial development which required no further assistance through GSP.

As to the mandatory exclusion of those imports that have, within one year, exceeded the indexed upper value limit, CMA strongly believes that this upper limit has risen to an excessive level. Furthermore, it seems inappropriate to apply one uniform upper value limit to all product sectors (as defined by the two-digit SIC code).

The Administration has proposed that the competitive need limits be revised into three tiers. The vast majority of beneficiary developing nations would remain under the current system, as described in footnote 7. These would be the middle tier countries: The first tier countries would be those which the President has determined to be capable of "producing highly competitive articles." These would be subject to a 25 percent/\$25 million rule. The third tier or "least developed beneficiary countries" would be exempt altogether from competitive need limits.

CMA is of the opinion that a multi-tiered system of competitive need limits is not only unnecessary, but undesirable because it will add undue complexity to the system. The additional level of Administration discretion coupled with unclear "graduation" criteria will force industry to operate in an atmosphere of even greater uncertainty than it now does.

B. Recommendations

1. The competitive need provisions should be applied on the basis of seven-digit TSUSA items, so that when, in any one year, imports of a seven-digit item from a country exceed a set amount (indexed to the U.S. GNP) or exceed 50 percent of all imports of that seven-digit item, GSP benefits would be suspended with regard to imports of that article from that country. As stated previously, the seven-digit TSUSA level, and not the five-digit one, provides the necessary specificity of description to make decisions as to whether GSP benefits should be suspended from individual articles.

2. In addition, the current dollar amount applicable under the "cap" included in the GSP competitive need provisions⁸ is too high. In 1974 dollars, this cap was equivalent to \$25 million. For 1983, it was equal to \$53.65 million. This figure should be revised downward to reflect the change from five-digit TSUSA to seven-digit analysis. The \$1 million *de minimis* exemption, which is indexed to GNP as well,⁹ should also be reduced accordingly.

3. Finally, the reinstatement procedures applicable after suspension under the competitive need limitations should be modified so that a country can be reinstated to GSP treatment only at an intermediate tariff level (for example, one-half of most-favored nation (MFN) rate). If a country does exceed the limitation for a second year (consecutively or not), it should permanently be graduated from GSP treatment with respect to that article. Such a procedure would avoid the practice of countries fluctuating in and out of the GSP Program, when they are actually competitive in the articles in question. Once a country has reached the competitive need limits in an article for two years, it is obviously internationally competitive in that article and should no longer be able to receive GSP benefits for it.

All of the above criteria for activating the competitive need provisions should not be in lieu of, but should rather be in addition to, applicable graduation provisions. The graduation criteria would, of course, supersede the competitive need limits.

IV. BASKET CATEGORIES

A. Problem

The present competitive need limits frequently fail to function properly. The major reason for this failure is the existence within the Tariff Schedules of "basket"¹⁰ categories, which usually contain a large number of different articles.

⁸ 19 U.S.C. § 2464(c)(1)(A).

⁹ 19 U.S.C. § 2462(d).

¹⁰ "Basket" categories are those classifications within the TSUSA in which multiple items which have similar chemical characteristics are listed and for which, supposedly, there is insufficient trade to warrant being specifically provided for. An example of basket categories exists for a class of organic compounds called ketones. The TSUSA provides specifically for four ketones: acetone (#427.6000), ethyl methyl ketone (#427.6200), isophorone (#427.6410) and methyl isobutyl ketone (#427.6420). All other ketones are classified in the "basket" of TSUSA #427.6430.

Many of these articles account for a significant amount of trade and would, if separately classified, probably trigger the 50 percent competitive need limit, thereby removing the article from the list of GSP eligible items for at least one year.

Because no mechanism exists easily to remove articles from basket categories, the competitive need limits are effectively bypassed. Moreover, it is difficult for domestic industry to petition for graduation of an article in a basket because of the lack of data on imports of individual articles entered in basket or multiple product categories.

The problem of basket categories in the administration of the GSP Program has previously been raised with the Trade Policy Staff Committee by the Industry Sector Advisory Committee on Chemicals and Allied Products (ISAC #3). In the letter dated November 12, 1981, ISAC #3 stated that: [It] "would like to go on record as a matter of principle concerning specific requests from developing countries for GSP treatment on products which are included in a TSUS basket containing dozens (and sometimes hundreds) of other products. ISAC #3 strongly urges that such specific product requests be broken out of the basket and assigned a separate TSUP numerical designation. Stated another way, the ISAC opposes according GSP treatment to an entire basket category simply because GSP treatment has been requested for one product in the basket. In the opinion of the ISAC, extending GSP treatment to the entire basket category contravenes the spirit of the GSP system as well as causing potential (and inadvertent) hardship to manufacturers of the other products contained within the basket."

This problem is of particular importance to the chemical industry because of the significant number of basket categories in Schedule 4 of the Tariff Schedules.

The Administration proposal does not address the issue of unintended benefits being granted to articles contained in basket categories and, therefore, does nothing to lessen the impact on U.S. producers of articles which are entering duty-free because GSP benefits have been granted to baskets which contain multiple articles.

B. Recommendation

A method for "breaking" or "lining" out individual articles from baskets should be included in renewal legislation. Upon the request of a representative of an interested domestic industry, the Administration should be required to "break out" articles from a basket or multiple product category and provide a separate seven-digit TSUSA numerical designation to any such article in that basket category. Such "break outs" would permit an assessment of whether GSP benefits should be withdrawn from any of these articles.

V. TIMELINESS OF RESPONSE TO INTERESTS AND CONCERNS OF U.S. INDUSTRY

A. Problem

There is a need for greater and more timely responsiveness to the interests of domestic producers. The USTR currently accepts petitions once a year for extension or withdrawal of GSP benefits. Petitions are accepted for review in June, and actions on these petitions are taken the following March.

While this time frame may be adequate in many cases, it does not address those instances in which a U.S. industry may be suffering immediate injury from imports receiving GSP benefits. A procedure should be established to process petitions in such cases in a more expeditious manner.

Second, although the GSP Program was designed to ensure that granting of GSP duty-free status to articles would have no adverse effect on U.S. producers of competitive items, there are, at present, no sufficiently explicit criteria to safeguard the interests of U.S. producers.

The Administration proposal fails to address this issue as well.

B. Recommendations

1. The GSP procedures should provide for emergency-basis consideration by the USTR of petitions to suspend or eliminate GSP benefits. In this regard, a provision should be included in the GSP rules under which a petition by a representative of a domestic industry seeking to have GSP treatment withdrawn from an article will be given immediate "fast-track" consideration by the USTR upon a showing that conditions exist which warrant such treatment. Such "fast-track" procedures may, for example, be needed for certain requests to "break out" articles from basket categories.

2. The Administration should be obliged to judge import sensitivity by specific criteria. Administrative discretion should be reduced in the review procedure. Instead, the Administration should have clearly-defined, specified criteria which will be followed (e.g., an increase in the import penetration ratio measured by the relationship

of imports to domestic production, the decline of employment in the United States, and other equally relevant criteria).

Related issues

VI. UNFAIR TRADE PRACTICES

A. Problem

There is growing concern within the U.S. chemical industry that duty-free access to the U.S. market benefits countries which do not adhere to the internationally recognized trading rules set forth by the General Agreement on Tariffs and Trade (GATT). For example, the list of GSP beneficiary developing countries includes several countries which have not accepted all parts of the 1979 Multilateral Trade Negotiation (MTN) Package, several which are imposing "performance requirements" in violation of the GATT, and several non-market economies. Also, some of the countries receiving GSP benefits do not provide protection for industrial or intellectual property rights.

B. Recommendations

Any GSP beneficiary developing country which violates internationally recognized intellectual or industrial property rights, commits fraud (or sanctions fraud by its resident companies) in the conduct of its trade relations with the United States, or trades in counterfeit goods (or sanctions such trade by its resident companies) should be denied GSP benefits for all articles it imports into the United States.

VII. RECIPROCITY

A. Problem

The Administration has proposed to waive competitive need limits for any country "when it is in the economic interest of the United States" to do so. Such determination "will give great weight to the extent to which the country has assured the United States that it will provide equitable and reasonable access to the markets of such country." (By implication, this would also allow the President to fail to graduate a country no longer in need of preferential treatment but which promises other trade concessions to the United States.)

B. Recommendations

CMA believes that the Administration should not be given authority to negotiate reciprocity agreements pursuant to which the United States would refrain from graduating a country found no longer to need preferential access to the U.S. market in exchange for certain other concessions. The basic concept of GSP should remain encouragement of developing countries to industrialize by the granting of preferential access to the U.S. market. If such preferential access were granted to countries not in need of it, the underlying rationale of the GSP Program, and of the GATT Most Favored Nation rule, would be violated.

Mr. FOVEAUX. The implementation of the current GSP program has created problems in dealing with certain of the duty-free imports. Our major problem with the GSP program is that it allows for too much discretion by the administration in its implementation, and following are examples where this problem arises:

No. 1, no provisions currently exist, nor to our knowledge are proposed, to permanently remove or graduate articles or entire product sectors from GSP benefits.

No. 2, the dollar value limit of \$53 million necessary to trigger temporary suspension of benefits—that is, the competitive need limits—have become excessive. Additionally, there are no requirements which prevent an article from repeatedly being reinstated, only to exceed the competitive need limits every other year.

No. 3, the extension of GSP benefits to multiple article classifications of the Tariff Schedules, more commonly called "baskets," has provided GSP benefits to certain articles which should not receive such benefits.

Now, on the matter of graduation, the President's report to the Congress on the first 5 years' operation of the Generalized System of Preferences revealed that five countries were receiving almost three-quarters of all GSP benefits. Since 1981, the administration has instituted a graduation procedure for these more advanced developing countries.

This procedure is purely discretionary and has proven to be an inadequate means for shifting GSP benefits from the more advanced developing countries to the less advanced ones. The administration's GSP renewal proposal contains no guidelines or requirements for graduation.

The administration is proposing to set up a system to lower competitive need limits for more advanced developing countries. However, the implementation of that system will be discretionary. The addition of this new level of administration discretion, coupled with the unclear graduation criteria, will force industry to operate in an atmosphere of even greater uncertainty than it now does.

The administration proposal does not address the issue of unintended benefits being granted to articles contained in basket categories. Existing mechanisms and the proposals for renewal do nothing to lessen the impact on U.S. producers of articles which are entering duty-free because GSP benefits have been granted to baskets which contain multiple articles.

Now as to recommendations:

OCITA recommends that separate, clearly defined criteria be established for both graduation and competitive need limits. If a country has exceeded the competitive need limits for an article or product sector, its GSP benefits should be reinstated no more than once. The second time the competitive need limit is exceeded, the country should be graduated for that item in question.

OCITA also recommends that the GSP program should provide a method of breaking out significant individual articles from baskets in order to permit an assessment of whether GSP treatment should be withdrawn from some of these articles. The method devised should require rapid response time on the part of the administration upon the request of a representative of an interested domestic company or industry.

Finally, OCITA applauds the administration's efforts to protect the intellectual property rights of U.S. industry in this and other proposed legislation, trade legislation. However, we believe that the administration should not be given authority to grant GSP benefits to countries no longer in need of them in exchange for other trade concessions. The basic concept of GSP should remain encouragement of developing countries to industrialize by the granting of preferential access to the U.S. market.

Once again, OCITA thanks the subcommittee for this opportunity to provide the industry's views on the reauthorization of GSP, and our written statement elaborates on all the points raised here today.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Gray.

STATEMENT OF THOMAS J. GRAY, VICE PRESIDENT, INTERNATIONAL, DAY-GLO COLOR CORP., AND VICE PRESIDENT, SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION

Mr. GRAY. My name is Thomas Gray and I am vice president of Day-Glo Color Corp., a small chemical manufacturing company, and I am here today testifying on behalf of Day-Glo and the Synthetic Organic Chemical Manufacturers Association, SOCMA, of which I am vice president. SOCMA is a nonprofit association of producers of organic chemicals, many of whose members, like Day-Glo, are small chemical companies.

Day-Glo imports some products subject to GSP and also manufactures some products which are not presently subject to GSP. Therefore, we have a strong interest in the GSP program.

SOCMA endorses the views expressed in the testimony just delivered by OCITA's representative. SOCMA also supports the administration's proposed extension of the GSP system for ten years and the general aim and intent of several of the administration's proposed revisions. Two of the proposed revisions, however, are in need of clarification or modification.

Section 3 of the administration's proposal would provide the President with broad discretion to waive the competitive need limits on all products where he determines such a waiver to be in the national economic interest. Section 4 of the proposal, which apparently is intended to replace the current graduation process, permits the President to establish lower competitive need limits for highly competitive products. Both of these proposals have troubling aspects.

First, section 3 appears to grant the administration extremely broad discretion to remove the only automatic safeguard built into the GSP program, the competitive need limits. We understand that the administration would use this authority in a highly selective manner for goods such as toys and semiconductors which the domestic industry concerned favors receiving duty-free access to our market. However, we believe that the language of this provision needs to be tightened up to reflect the limited nature of this waiver authority.

In particular, the administration should be directed to give great weight to the advice of the appropriate industry sector advisory committee before proposing any waivers under this grant of authority.

Second, we do not believe that section 4 is an adequate remedy for the problems created by highly competitive products. They would not only squeeze out products from other less developed countries, but in some cases they may have a significant adverse impact on the domestic industry making like and similar products.

When a GSP country has developed an industry and become sufficiently competitive in a product area, it should be graduated from the GSP program, not given an import quota of 25 percent of total imports or \$25 million plus inflation. For many products, such as dyes and pigments, that level of imports would be a very significant competitive factor. We therefore strongly urge the retention and strengthening of the current graduation process, under which

affected industries can petition for the graduation of products from highly developed GSP eligible countries.

One problem with the current program which section 4 does not address is determining under what conditions the administration will graduate a product. We believe GSP renewal legislation should direct the administration to publish appropriate graduation criteria. We also support the concept of having the administration perform a study and itself take action to graduate all highly competitive products.

We do not object to one of the criteria being whether a product meets the proposed 25 percent/\$25 million test, so long as it is not exclusive. However, we think the basic concept should be to permanently graduate competitive products, not subject them to a lower competitive need limit which could be exceeded 1 year but not the next.

We are also concerned about the ambiguity resulting from section 4's requirement that the President evaluate the level of competitiveness of a product relative to other beneficiary countries which produce the same product. That provision leaves uncertain, for example, what the appropriate standard would be in a case in which no other beneficiary country produces the same product. In any event, we believe the competitiveness of the domestic industry must also be considered in determining whether a GSP eligible product is highly competitive.

In summary, SOCMA agrees with the general aim of extending the GSP program, but at the same time believes the renewal legislation should limit rather than expand the administration's discretion to grant GSP treatment to products that do not need such preferential access to the U.S. market. We therefore believe competitive waiver authority should be quite limited and that competitive products which meet published criteria should be graduated from the program.

In addition to those suggestions, we are submitting for the record a statement setting forth some additional problems with the current GSP program and SOCMA's proposals for redressing them.

Chairman GIBBONS. And we will accept that in the record when it arrives.

[The material referred to follows:]

STATEMENT OF THE SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION
REGARDING THE GENERALIZED SYSTEM OF PREFERENCES

The Synthetic Organic Chemical Manufacturers Association ("SOCMA") is a non-profit association of producers of organic chemicals. A membership list is attached. Many of SOCMA's 100 members are small chemical companies.

SOCMA believes that the Generalized System of Preferences ("GSP") program—which provides duty-free treatment to a large group of articles imported into the United States from designated lesser developed countries ("LDCs")—is in need of substantial improvement. In connection with the current assessment of the program, which is due to expire in January 1985 unless reauthorized by Congress, SOCMA has prepared this statement to summarize the views of its members regarding several important aspects of the GSP programs.

A. GRADUATION AND ELIGIBILITY

Graduation

The goal of the GSP program is to encourage industrial development in the LDCs named as GSP beneficiary countries, by granting them preferential access to the

U.S. market. During the seven years that the GSP program has been in effect, the chemical industries in several beneficiary countries have demonstrated their ability to be fully competitive in the U.S. market, and therefore no longer need or warrant preferential treatment. In response to criticism that GSP benefits should be withdrawn from specific articles or countries, the Administration has initiated a discretionary "graduation" process by which GSP benefits may be withdrawn from an article imported from a country that has become competitive with respect to that article. However, the graduation measures have been inadequate and too slow to bring about the graduation of articles from the more advanced developing countries. As a result, the redistribution of GSP benefits to the less advanced LDCs have been stalled. Moreover, because the criteria for graduation are unclear, U.S. companies find it difficult and expensive to request graduation of articles that no longer need preferential treatment.

The graduation process should be made a more central part of the GSP program, to ensure that duty-free treatment is extended only to those LDCs and articles that actually need preferential access to the U.S. market and that do not threaten to injure U.S. industry.

To accomplish this goal, the graduation process should involve less administrative discretion. It should instead be based on specified standards under which imports of an article from a GSP beneficiary country would, upon petition by a U.S. company or industry producing that article, be graduated from GSP treatment when imports of that article from one or more beneficiary countries become competitive in the U.S. market.

Specifically, those graduation standards should provide that a *prima facie* case for graduation is made—and no additional showing of injury suffered by the U.S. industry is required—in either of the two situations described below:

(1) *Graduation on a sectoral basis.*—When in any one year the imports of articles in a "product sector" (determined by using the 2-digit SIC "major group" code) from a country exceed either (i) a specified percentage of the total value of imports of articles in that product group from all countries, or (ii) a specified dollar amount (indexed to the U.S. GNP), imports of all articles in that product sector from that country should be graduated from GSP treatment.

(2) *Graduation on a product basis.*—Graduation should also occur when an increase in import penetration by a particular article or category of articles from a GSP beneficiary country demonstrates the competitiveness in the U.S. market of that article or category of articles from that country. In particular, if any beneficiary country exports to the United States, in one year, a quantity of any article or category of articles sufficient to cause the import penetration ratio of such article or category of articles from that country to increase by 5 percentage points or more over that import penetration ratio for either of the two preceding years, that country should be graduated with respect to that article or category of articles. Moreover, if all beneficiary countries export to the United States, during one year, a quantity of any article or category of articles sufficient to cause the import penetration ratio of such article or category of articles from all beneficiary countries to increase by 10 percentage points or more over that import penetration ratio in either of the two preceding years, all beneficiary countries should be graduated from GSP treatment with respect to that article or category of articles. For purposes of this paragraph, the import penetration ratio shall be the percentage imports bear either to domestic consumption or to domestic production.

In addition to these *prima facie* rules, the GSP graduation standards also should provide that an article from a beneficiary country will be graduated from GSP treatment upon a showing of import sensitivity. The criteria for such a showing should be specified so as to make the nature of the showing required clearer to U.S. industry. The necessary showing should be limited to the kinds of data and business information a U.S. company in the normal course of doing business would normally have to evaluate a competitive situation and its effect on a company's business, such as loss of customers, reduction in profits and return on investment, lay offs and reduction in employment, limitation on plant expansion and other related business information that would show the effects of GSP imports on the domestic company or industry.

Eligibility

Furthermore, GSP eligibility should not be extended to products of countries exhibiting a high level of economic growth and significant competitive capacity within a given product sector as defined by the 2-digit S.I.C. major group code. In particular, GSP duty-free treatment should not be extended to countries rich in hydrocarbons or other significant sources of raw materials used in the production of chemi-

cals because the existence of such natural resources provides more than sufficient incentive to industrialize.

B. COMPETITIVE NEEDS PROVISIONS

The GSP rules currently provide that GSP duty-free treatment will be temporarily suspended with regard to an article imported from a country that has shown it no longer has a "competitive need" for such treatment with regard to that product.

The fact that such competitive need no longer exists with regard to an article from a beneficiary country is presumed if the dollar amount of imports of that article (determined on a 5-digit TSUS item basis) from that country in any one year exceeds either (i) a "cap amount" which is the equivalent of \$25,000,000 in 1974 dollars (in 1982, equal to about \$53.3 million) or (ii) 50 percent of the dollar amount of imports of that article from all countries (so long as that dollar amount exceeds a "de minimis" level of \$1,000,000 in 1979 dollars—about \$1.3 million in 1982). If either of these competitiveness tests is met, GSP treatment is suspended for imports of that article from that country for one year. However, if neither of the two competitiveness tests is met during that year of suspension, GSP treatment is reinstated the following year.

These competitive need provisions have not been fully effective in suspending GSP treatment on products that no longer need preferential treatment. A clear indication of this is the Administration's initiation of the discretionary graduation policy and the decision to deny the redesignation of certain eligible products.

Extending the competitive need cap to seven digit TSUS classes would have the effect of increasing in some measure the protection for U.S. producers of like or directly competitive products as well as benefiting the less competitive eligible countries. The seven digit TSUS annotates some five digit tariff items into several sub-classifications of products for statistical identification of trade volume. Five digit tariff items which are broken down in this way usually include a broad range of products totaling a substantial volume of trade.

Accordingly, the competitive cap test should be applied on a 7-digit TSUS items basis so that when in any year imports of a 7-digit item from a country exceed a specified dollar amount (indexed to GNP) or exceed 50 percent of all imports of that 7-digit items, GSP benefits will be suspended with regard to imports of that article from that country.

In addition the current dollar amount of the cap needs to be reduced. Experience has shown that the present limit, due to the rapid inflationary rise in the GNP since 1974, is too high under present international trading conditions to protect U.S. industry. This limit should be reduced to reflect current and prospective economic conditions and to reflect the shift to a 7-digit TSUS analysis. The major effect of such reduction would be an increase in the withdrawal of GSP treatment of products imported from the more developed eligible countries.

Moreover, the procedures for reinstatement of an article to GSP treatment after it has been suspended under the competitive need provisions should be modified so that an article can be reinstated to GSP treatment only at an intermediate tariff level (for example, one-half of the most-favored-nation rate), and only if it does not exceed either of the competitiveness tests for a second year. If a country does exceed either of the competitiveness tests for a second year (whether consecutively or not consecutively), that country should be automatically graduated from GSP treatment with respect to that article.

C. BASKET AND MULTIPLE-PRODUCT CATEGORIES

Many basket and multiple-product categories in the TSUS, even those at the 7-digit level, contain a large number of articles that account for a significant amount of trade. As a result, the competitive need provisions designed to limit GSP applicability are often effectively bypassed. Moreover, because of lack of data on imports of individual articles entered in basket or multiple-product categories, it is difficult for the domestic industry to petition for graduation of an article in such a category.

To deal with this problem, the GSP program should provide a method of "lining out" significant individual articles from basket or multiple-product categories in order to permit an assessment of whether GSP treatment should be withdrawn from some of those articles. Upon the request of a representative of an interested domestic industry, the President should be required to "line out" of a basket or multiple-product category, and to give a separate 7-digit TSUS numerical designation to, any article in that category unless the President finds that (i) the imports of that article from any beneficiary country do not exceed 25 percent of the (revised) "cap amount" or (ii) the imports of that article from all beneficiary countries do not account for

more than 25 percent of the total imports for the entire basket or multiple product category.

D. RECIPROCITY

The Administration has inquired whether it would be useful for the Administration to have the authority to negotiate "reciprocity agreements" pursuant to which the United States would, in exchange for certain trade concessions, refrain from graduating a country found no longer to need preferential access to the U.S. market.

The Administration should not be given such authority. The basic concept of the GSP program should be to encourage developing countries to industrialize by giving them preferential access to the U.S. market. Granting such preferential access to countries that do not need it would be inconsistent with the underlying rationale of the program as well as with the GATT MFN rule.

E. EMERGENCY RELIEF

Under current practice, the Office of the U.S. Trade Representative ("U.S.T.R.") accepts petitions for extension or withdrawal of GSP benefits on a once-a-year basis, and the processing of such a petition takes from June, when petitions are accepted for review, to March, when action is finally taken. Although this process is adequate in many cases, it is too long and too inflexible to provide help on an emergency basis to a U.S. industry suffering immediate injury from imports benefiting from GSP treatment.

In order to make the GSP program more responsive to the needs of domestic industry, and to ensure that the program does not injure U.S. companies, the GSP procedures should provide for emergency-basis, "fast-track" consideration by the U.S.T.R. of any petition to suspend or eliminate GSP benefits, upon a showing that conditions exist that warrant such consideration.

F. UNFAIR TRADE PRACTICE

We believe that it is inappropriate to continue to extend duty-free access to the U.S. market to products from beneficiary developing countries which have been found to be dumped or subsidized in violation of U.S. law. Furthermore, any country which refuses to provide adequate remedies for the enforcement of U.S. intellectual property rights in that country or fails to take appropriate action to halt trade in counterfeit goods should be denied GSP benefits for all products imported into the U.S.

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Chairman GIBBONS. Mr. Bartosic.

STATEMENT OF A. J. BARTOSIC, SENIOR COUNSEL, ROHM & HAAS CO., ACCOMPANIED BY ALLAN J. SPILNER, MANAGER OF TRADE ISSUES, GOVERNMENT RELATIONS

Mr. BARTOSIC. I am A. J. Bartosic, senior counsel with the Rohm & Haas Co., a leading domestic manufacturer of acrylic sheet. Appearing with me today is Allan J. Spilner, manager of trade issues, government relations. We appreciate the opportunity to provide you with our comments on the possible renewal of GSP.

We sell our acrylic sheet under the trademark "Plexiglas," with sheet production facilities in Bristol, Pa., Knoxville, Tenn., and Louisville, Ky.

We appear before you today not to oppose the renewal of U.S. GSP, but to urge strongly that the renewed program be revised appropriately to insure that unwarranted distribution benefits such as those now bestowed upon certain imports of acrylic sheet from Taiwan is not perpetuated.

I would like to first address the issue of economic development of Taiwan in regard to acrylic sheet, Mr. Chairman. In our opinion, which we believe is shared by other domestic manufacturers of acrylic sheet, the Taiwanese producers of acrylic sheet are well-established and hardly in need of tariff benefits.

Although there are 20 Taiwanese companies manufacturing acrylic sheet, three large manufacturers are responsible for 85 percent of the manufactured acrylic sheet and exports. The Taiwanese production of acrylic sheet has grown from a mere 150,000 pounds in 1966 to over 40 million pounds in 1982.

It is also important for the subcommittee to know that only 20 percent of all acrylic sheet manufactured in Taiwan is for sale and use in Taiwan, while 80 percent of all Taiwanese acrylic sheet has been exported to North America and Europe. Of this, over 50 percent is exported to the United States.

It is important for you, Mr. Chairman, and the subcommittee to know that Canada and the countries of Europe do not extend generalized preferential tariff treatment to acrylic sheet, and yet the Taiwanese acrylic manufacturers are able to compete very successfully in these countries.

Imports of acrylic sheet from Taiwan to the United States have increased from 0.4 million pounds in 1977 to somewhere between 12 to 18 million pounds in 1982. If the rate of imports of acrylic sheet continues at the same rate as the first 6 months of 1983, the total imports this year from Taiwan will be over 20 million pounds.

According to data obtained from the "Journal of Commerce," Taiwan in the past 2 years has been responsible for approximately

90 percent of all acrylic sheet imported into the United States. This percentage has grown from 45 percent in 1978. It is quite clear that Taiwan dominates the imports of acrylic sheet, and such action has a detrimental effect on the economic development of countries which are more worthy of obtaining duty-free treatment for acrylic sheet.

The major raw material used in the manufacture of acrylic sheet is methylmethacrylate monomer. Prior to 1978, most of the monomer was imported to Taiwan from Japan. However, in October of 1978 a monomer plant was built in Taiwan and, according to the 1982 report of the Taiwanese Petrochemical Industry Association, this plant is now capable of producing approximately 18,000 metric tons. And I think, Mr. Chairman, a quick glance at this bulletin, this report for 1982, would convince most people that the petrochemical industry is well developed in Taiwan.

The Taiwanese acrylic industry there is self-sufficient, because it possesses the capability to produce not only the raw material, the monomer, but also the finished product, acrylic sheet. The Taiwanese acrylic industry is able to and does compete very effectively on an international basis.

The second major issue is the issue of adequate market access to U.S. exports. Although we have not tried to export acrylic sheet to Taiwan, we would have a very difficult time in doing so in view of their total tariff of 55 percent on CIF value on acrylic sheet. Compare this with the 6 percent to 8.5 cents a pound in the United States. The Taiwanese rate includes duty, harbor tax and a commodity tax.

In the brief time now, we would like to discuss some problems with our tariff laws and why we got into this problem. In the past 5 years, Taiwan has been using three tariff classifications to import acrylic sheet into the United States.

Over 75 percent of the acrylic sheet being imported from Taiwan is imported under TSUS 771.41, which is a basket clause and therefore provides a shelter to the Taiwanese and enables them to stay within the competitive need limits in that category. In the only justifiable TSUS classification, that is 771.45, which was established solely for acrylic sheet, the Taiwanese have exceeded the competitive need limit every year since 1979 except for 1981.

The Taiwanese acrylic manufacturers, as well as other foreign manufacturers, have realized that the basket or multiple groupings inherent in our Tariff Schedules make an ideal cover for market penetration.

Very quickly, I would like to review two other items of overall interest to the United States. First, the acrylic industry in the United States has acted very responsibly in defining safe standards of practice in the use of acrylic sheet and has sought to limit the market of acrylic sheet to the uses defined by such standards.

The Taiwanese acrylic manufacturers, on the other hand, have neither made an effort to meet American standards of disclosure nor to comply with American regulations when their acrylic sheet is used in buildings, aircraft, motor vehicles and so forth. Such conduct puts at risk the result of years of effort by the domestic industry to insure safe use of acrylic plastics and puts at risk the goodwill and broad acceptance of acrylic sheet in the United States.

A second issue is that acrylic plastics are essential for the defense of the United States. Acrylic plastics are used as glazing in all types of military aircraft, especially helicopters, and also in periscopes and other uses in tanks, submarines and ships. There is no substitute for acrylic sheet in the defense effort. Further encouragement of acrylic imports from Taiwan could place U.S. production facilities in jeopardy.

In summary, we have attempted to acquaint you with the source of competition to the domestic acrylic sheet industry that is simply not deserving of the benefits bestowed under the GSP. The Taiwanese producers are well-established, mature, self-sufficient, and internationally competitive. We strongly urge the subcommittee to recommend that no GSP benefits be accorded acrylic sheet which is imported from Taiwan.

However, in order to accomplish this goal, because of the abuse of our Tariff Schedules, it is necessary to amend the GSP so that no GSP benefits be accorded any tariff item description beginning with the word "other," unless there is additional qualifying language that restricts the subject importations to a given product line. Alternatively, the 50 percent competitive need provision should be applied on the basis of seven-digit TSUS items, as requested by OCITA earlier.

We will submit written testimony which was presented to the Trade Policy Staff Committee Panel on April 6, which provides more detail on these issues.

[The prepared statement and prior testimony referred to follow:]

STATEMENT OF A. J. BARTOSIC, SENIOR COUNSEL, AND A. J. SPILNER, MANAGER OF
TRADE ISSUES, GOVERNMENT RELATIONS, ROHM & HAAS CO.

My name is Albert J. Bartosic. I am Senior Counsel with the Rohm and Haas Company, Independence Mall West, Philadelphia, PA, a leading domestic manufacturer of acrylic sheet that we market under the trademark, Plexiglas. Appearing with me is Allan J. Spilner, Manager of Trade Issues, Government Relations. We appreciate the opportunity to provide you with our comments on the possible renewal of the Generalized System of Preferences.

Acrylic sheet is a polymerized form of methylmethacrylate monomer and it is used extensively as a breakage-resistant glazing material in military and non-military applications. We sell our acrylic sheets under the trademark Plexiglas with sheet production facilities in Bristol, Pennsylvania, Knoxville, Tennessee and Louisville, Kentucky.

We appear before you today not to oppose renewal of the U.S. Generalized System of Preferences ("GSP"), but to urge strongly that the renewed program be revised appropriately to ensure that unwarranted distribution of GSP benefits such as those now bestowed upon certain imports of acrylic sheet from Taiwan is not perpetuated.

The Subcommittee's news release announcing these hearings stated that the Administration intends to give increased weight to 1) the level of economic development of a beneficiary country and 2) whether that country provide adequate market access to U.S. exports.

ECONOMIC DEVELOPMENT OF TAIWAN—ACRYLIC SHEET

In our opinion, which we believe is shared by the other USA manufacturers of acrylic sheet, the Taiwanese producers of acrylic sheet are well-established and hardy in need of tariff benefits to ensure that the growth record of acrylic sheet in Taiwan can be maintained.

At the present time, more than 20 Taiwanese companies engage in the manufacture of acrylic sheet. Three large manufacturers are responsible for approximately 85 percent of the production and exports of acrylic sheet. The Taiwanese production of acrylic sheet has grown from a mere 150,000 pounds in 1966 to over 40 million pounds in 1982. The acrylic sheet production capacity has increased from approxi-

mately 40 million pounds in 1977 to over 50 million pounds in 1982, which represents over a 25 percent increase. It is also important for the Subcommittee to know that only 20 percent of all acrylic sheet manufactured in Taiwan is for sale and use in Taiwan while 80 percent of all Taiwanese acrylic sheet has been exported to North America and Europe. Of this, over 50 percent is exported to the United States. In other words, Taiwan exports to the United States are between two and three times total sales in Taiwan. It is also important for you to know that Canada and the countries of Europe do not extend generalized preferential tariff treatment to acrylic sheet and yet, the Taiwanese acrylic manufacturers are able to compete very successfully in these countries, especially in Canada. In Canada the duty on acrylic sheet is 10 percent on CIF value, while in most European countries, the duty rate is 14.7 percent.

Imports of acrylic sheet from Taiwan to the United States have increased from 0.4 million pounds in 1977 to somewhere between 12 to 18 million pounds in 1982. If the rate of imports of acrylic sheet continues at the same rate as the first six months of 1983, the total imports this year from Taiwan will be over 20 million pounds.

According to data obtained from the Journal of Commerce, in the past two years Taiwan has been responsible for approximately 90 percent of all acrylic sheet imported into the United States. This percentage has grown from 45 percent in 1978. It is very clear that Taiwan dominates the imports of acrylic sheet, and such action has a detrimental effect on the economic development of countries which are more worthy of obtaining duty-free treatment for acrylic sheet.

The major raw material used in the manufacture of acrylic sheet is methylmethacrylate (MMA). Prior to 1978, most MMA was imported into Taiwan from Japan. In October of 1978, however, China Chemical Corporation and I.C.I. of Great Britain built an MMA monomer plant in Taiwan. According to the 1982 Report of the Petrochemical Industry Association of Taiwan, the annual capacity of the MMA plant is 17,987 metric tons per year. Due to this substantial increase in domestic production capabilities, the Taiwanese were able to reduce MMA imports to approximately 2,700 metric tons by 1980.

It is quite evident that the Taiwanese acrylic industry is self-sufficient because it possesses the capability to produce not only the raw material, but also the finished end product, i.e., acrylic sheet. Therefore, the Taiwanese acrylic industry is able to compete very effectively on an international basis.

PROBLEMS WITH OUR TARIFF LAWS

In the past five years, Taiwan has been using three tariff classifications to import acrylic sheet into the United States, i.e., Items 771.41 (formerly 771.4218), 771.45 and 771.55. Over 75 percent of the acrylic sheet being imported from Taiwan is imported under TSUS 771.41, which is a "basket clause," and therefore, provides a shelter to the Taiwanese and enables them to stay within the competitive need limits in that category. In the only justifiable TSUS classification, i.e., 771.45, which was established solely for acrylic sheet, the Taiwanese have exceeded the competitive need limit every year since 1979 except for 1981. It is quite apparent that the use of three tariff classifications has permitted the Taiwanese to avoid consolidation of acrylic sheet exports under one tariff item. If imports were consolidated under one item, Taiwan would have exceeded the competitive need limit every year since 1979 and it is clear they would exceed it again in 1983.

While the Rohm and Haas Company has initiated litigation challenging the U.S. Customs Service Classification of acrylic sheet products under more than one tariff item number, the matter is yet to be resolved by the courts. We are also diligently pursuing administrative remedies and legislative remedies to correct the problem for the domestic acrylic industry. If we are able to prevail on the merits, either in the courts or the Congress or with the administrative agencies, substantially all imports of acrylic sheet will be classified under one TSUS classification.

Taiwanese acrylic manufacturers, as well as other foreign manufacturers, have realized that the "basket" or multiple groupings inherent in our Tariff Schedules make ideal cover for market penetration. They avoid exceeding the competitive need limits under protection of "other" products that become thus grouped and also by the fact that the five-digit TSUS does not provide the necessary specificity to determine whether GSP benefits should be suspended from individual products such as acrylic sheet.

In order to remove the abuse of our Tariff Schedules, we respectfully request that no GSP benefits be accorded any tariff item description beginning with the word "other" unless there is additional qualifying language that restricts the subject importations to a given product line. Alternatively, examination of the 50 percent com-

petitive need limit on the basis of the seven-digit statistical tariff item number may eliminate certain abuses, presuming that even this is subject to challenge if multiple product groupings or manufacturers of multiple source materials are included under a single provision.

ADEQUATE MARKET ACCESS TO U.S. EXPORTS

Although we have not tried to export acrylic sheet to Taiwan, we would have a very difficult time doing so in view of their total tariff of 55 percent on CIF value on acrylic sheet compared to 6 percent to 8.5¢/# in the USA. The Taiwanese tariff rate includes duty, harbor tax and a commodity tax.

OVERALL INTERESTS OF THE USA

The acrylic industry in the United States has acted responsibly in defining safe standards of practice in the use of acrylic sheet and has sought conscientiously to limit the market of acrylic sheet to the uses defined by such standards. It is a service rendered on behalf of the public generally and on behalf of the acrylic industry.

The Taiwanese acrylic manufacturers have not taken a comparable initiative in their national markets to define safe standards of practice governing the use of acrylic plastics in buildings, aircraft, motor vehicles, signs, etc. They have copied U.S. practice, but when shipping into the United States, they have neither made an effort to meet American standards of disclosure, nor to comply with American regulations. Such irresponsible conduct puts at risk the results of years of effort to assure safe use of acrylic plastics and puts at risk the good will and broad acceptance of acrylic sheet.

It is very important for you to know that acrylic plastics are essential for the defense of the United States. Acrylic plastics were placed on the exception list during the GATT Negotiations in 1977, primarily at the Defense Department's request. In the past 30 years, under previous trade negotiations, acrylic sheet was granted an exception from tariff cuts for this reason.

In an address in Philadelphia on February 16, 1982, Mr. Frank Carlucci, then Deputy Secretary of Defense, made it clear that one of the most important objectives of the Defense Department is to strengthen our defense capabilities through the rebuilding of our "industrial bases." He went on to explain that this meant the strengthening of industries which produce items which are used in conventional warfare.

The acrylic industry must be considered one of the "industrial bases" which contribute significantly to the needs of the military for conventional warfare. Acrylic plastics were of vital importance to the military services in World War II, Korea and Vietnam and might well be even more essential in the future. Acrylic plastics are used as glazing in all types of military aircraft, especially helicopters and also in periscopes and other uses in tanks, submarines and ships. There is no substitute for acrylic sheet in the defense effort. The further encouragement of acrylic imports from Taiwan could place U.S. production capabilities in jeopardy.

SUMMARY AND RECOMMENDATIONS

In summary, in the brief time available to us, we have attempted to acquaint you with the source of competition to the domestic acrylic sheet industry that is simply not deserving of the benefits bestowed under the GSP. The Taiwanese producers are well-established, mature, self-sufficient and internationally competitive. Their industry, having been established as early as 1959, has had very substantial increases in production since GSP benefits began in 1976. We strongly urge the Subcommittee to recommend that no GSP benefits be accorded acrylic sheet which is imported from Taiwan.

In order to accomplish this goal, because of the abuse of our Tariff schedules, it is necessary to amend the GSP so that no GSP benefits be accorded any tariff item description beginning with the word "other" unless there is additional qualifying language that restricts the subject importations to a given product line or alternatively the 50 percent competitive need provision should be applied on the basis of seven-digit TSUS items. Attached is testimony which was presented to the Trade Policy Staff Committee Panel on April 6, 1983 which provides more detail on these issues.

This concludes our testimony. We would be pleased to answer any questions you may have of us.

TESTIMONY PRESENTED TO TRADE POLICY STAFF COMMITTEE, APRIL 6, 1983

Good afternoon. My name is Albert J. Bartosic. I am Senior Counsel with Rohm and Haas Company, Independence Mall West, Philadelphia, Pennsylvania, a leading domestic manufacturer of acrylic sheet that we market under the Plexiglas® trademark. Appearing with me is our Washington counsel, William D. Outman, II, a partner with the law firm of Baker & McKenzie. We appear before you today not to oppose renewal of the U.S. Generalized System of Preferences ("GSP"), but to urge that the renewed program be appropriately revised to ensure that unwarranted distribution of GSP benefits, such as those now bestowed upon certain imports of acrylic sheets from Taiwan, are not perpetuated.

In order to understand our problem, we think it essential that brief reference be made to the present capacities and capabilities of the Taiwanese manufacturers of acrylic sheet products.

THE TAIWAN ACRYLIC SHEET MANUFACTURERS

The production of acrylic sheet in Taiwan dates from the establishment in the 1950s of the Taiwan Fluorescent Lighting Company which used acrylic to manufacture covers for fluorescent lights. Thereafter, beginning in 1959, Chi Mei Company began to produce acrylic sheet products in Taiwan for other uses. By 1961, Hsin Hwa and Golden Dragon had also begun to produce acrylic sheet in Taiwan. The total annual production of acrylic sheet in Taiwan in 1960 was 66 metric tons.

At the present time, more than 20 Taiwanese companies engage in the manufacture of acrylic sheet. Among the larger manufacturers are Chi Mei company, Jiu Mei, Hsin Hwa, Chi Lien, Yian Chung and Kai Mei. It is estimated that Chi Mei was responsible for approximately 40 percent of the total acrylic sheet production in Taiwan in 1980. It is further estimated that 45 percent of total production was manufactured by Jiu Mei and Hsin Hwa. Set forth below is a chart showing Taiwanese acrylic sheet production capacity in the period 1977—June 1981.

ACRYLIC SHEET PRODUCTION CAPACITY OF RECENT 5 YEARS

(Unit: millions of pounds)

Producer	1977	1978	1979	1980	¹ 1981
Chi Mei	12.41	14.71	20.13	17.35	7.04
Jiu Mei	5.74	7.43	8.02	9.00	3.71
Hsin Hwa	5.40	7.22	8.90	9.12	4.07
Golden Dragon	.31	.34	.56	.45	.32
Others	2.38	2.98	6.26	5.30	3.61
Total	26.24	32.68	43.87	41.23	18.74

¹ January to June.

It is apparent that the Taiwanese producers are well established and hardly in need of tariff benefits to insure that the growth record to date can be maintained. This substantial production capacity has been created to permit the Taiwanese to generate foreign exchange from the estimated 80 percent of total output directed to export markets, both in the United States and in Europe.

The major raw material used in the manufacture of acrylic sheet is methyl methacrylate ("MMA"). Prior to 1978, most MMA was imported from Japan. In October of that year, however, China Chemical Corporation and ICI of Great Britain built a MMA monomer plant in the southern part of Taiwan. It is estimated that the annual capacity of the Kaohsiung Monomer Company is between 15,000–18,000 metric tons per year. Due to this substantial increase in domestic production capabilities, the Taiwanese were able to reduce MMA imports to 2,733 metric tons by 1980. Thus, the Taiwanese industry is both competitive and self-sufficient, possessing the capacity to produce not only the raw materials but also the finished end product.

REVIEW OF IMPORTS OF ACRYLIC SHEET FROM TAIWAN

It is estimated that in excess of 80 percent of Taiwanese production of acrylic sheet is exported. Of this, approximately 50 percent is exported to the United States. Set forth below is a chart illustrating acrylic sheet imports based on data

available from the Department of Commerce and as compiled by the Journal of Commerce from manifest sheets submitted at the time of importation:

DEPARTMENT OF COMMERCE

(Millions of pounds)

Year	Country	1 771.41 (Basket)	Acrylic			Total	2 Journal of Commerce
			2 771.4218	3 771.4320	4 771.45		
1977	China T		(*)		0.4	0.4	
1978	do		2.0		.6	2.6	4.6
1979	do		3.8		2.6	6.4	8.9
1980	do	3.9		0.5	1.0	5.4	6.1
1981	do	7.2		.1	1.6	8.9	10.6
1992	do	9.0		.1	2.2	11.3	12.7

Brief Description of TSUS Classifications and Journal of Commerce:

1 771.41 Basket classification. Established 1980. Includes acrylics and other plastics. 1983 Duty Rate: 6% ad val.

2 771.4218 Acrylics (polymethyl methacrylate) (flexible). Established in 1978 and Cancelled in 1980 and replaced by 771.4320.

3 771.4320 Acrylics in 0.00" thick or less or in thicknesses greater than 0.006" in rolls. Established 1980 and cancelled February, 1983.

4 771.45 Acrylic resin. Established prior to 1961. Duty rate: 8.5 cent per lb.

2 Journal of Commerce figures are compiled from manifest sheets which describe articles as "acrylic sheet," "cast acrylic sheet," "plastic acrylic sheet," etc. all classifications of acrylic.

* No entries.

Based on import data obtained from commercial sources, the following illustrates the imports of acrylic sheet from Taiwan as a percentage of imports from all sources:

IMPORTS OF ACRYLIC SHEET FROM TAIWAN

	Imports (millions of pounds)		Imports from Taiwan as percent of imports from all sources
	From Taiwan	From all sources	
1978	4.6	10.1	45.1
1979	8.9	11.5	77.4
1980	6.1	7.5	81.3
1981	10.6	11.7	90.4
1982:			
January	1.3	1.3	97.3
February	1.1	1.1	97.0
March	1.3	1.7	78.8
April	.8	1.0	88.2
May	.8	.9	96.8
June	.8	.9	91.1
July	.9	1.0	89.2
August	.9	1.3	70.4
September	.7	.9	90.0
October	1.3	1.4	93.6
November	1.1	1.3	89.2
December	1.3	1.5	86.5
Total 1982	12.7	14.5	87.7

Source: Data obtained from Journal of Commerce.

During the past five years, imports of acrylic sheet from Taiwan have entered the United States, in any given year, under any of three separate tariff classifications. Set forth below is a chart summarizing importations by tariff item:

IMPORTS FROM TAIWAN UNDER SELECTED TSUS

[Millions of pounds]

	¹ 771.41	¹ 771.4218	¹ 771.4320	² 771.45
1978:				
Taiwan		2.0		0.6
Total		3.6		1.9
Taiwan, percent of total		55.7		32.9
1979:				
Taiwan		3.8		2.6
Total		5.7		3.8
Taiwan, percent of total		68.5		70.0
1980:				
Taiwan	3.9		0.5	1.0
Total	9.8		.9	1.7
Taiwan, percent of total	39.5		54.9	56.4
1981:				
Taiwan	7.2		.1	1.6
Total	17.0		.5	2.4
Taiwan, percent of total	42.2		27.2	65.8
1982:				
Taiwan	9.0		.1	2.2
Total	20.2		.5	3.2
Taiwan, percent of total	44.6		23.2	67.3

¹ Flexible not limited to acrylic.² Of acrylic.

It is apparent that the use of three tariff classifications has permitted the Taiwanese to avoid consolidation of acrylic sheet exports under one tariff item. While the Rohm and Haas Company has initiated litigation under authority of section 516 of the Tariff Act of 1930, as amended, challenging the U.S. Customs Service's classification of acrylic sheet products under more than one tariff item number, the Court of International Trade has yet to render a decision in the case. If we are able to prevail on the merits, substantially all imports of acrylic sheet will be classified under item 771.45, TSUS, currently one of the two relevant tariff item numbers in which the competitive need limitation has been invoked. While this may solve our current dilemma, it will not eliminate other areas in which similar abuses exist.

REQUEST FOR LIMITATION ON GSP AVAILABILITY

As I noted at the outset of our testimony, we are not opposed to the grant of duty free importation for import levels that neither pose a threat to U.S. industry nor are sourced from developing countries attempting to establish a competitive manufacturing base. Where, as here, a country is able to have its imports classified in provisions covering multiple product groupings, the competitive need limitations have become non-operative. We request, therefore, that in the renewed GSP Program no GSP benefits be accorded to any tariff item whose description begins with the word "other." Alternatively, the statutes should make clear that the competitive need limitations should be implemented on the basis of the seven-digit statistical tariff item numbers.

By way of illustration, the preponderance of acrylic sheet imports from Taiwan are entered under tariff item 771.41, TSUS which basically covers that the Taiwanese have successfully entered as so called "flexible" acrylic sheet. The sheet in question is not specifically identified in the Tariff Schedules as such but is included among provisions reading:

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1983)

Page 736 SCHEDULE 7. - SPECIFIED PRODUCTS: MISCELLANEOUS AND NONENUMERATED PRODUCTS
Part 12. - Rubber and Plastics Products

7-12-B, C

771.40 - 771.55

C S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LBOC	2
			Film, strips, sheets, plates, slabs, blocks, filaments, rods, seamless tubing, and other profile shapes, all the foregoing wholly or almost wholly of rubber or plastics (con.):				
			Not of cellulosic plastic materials:				
			Film, strips, and sheets, all the foregoing which are flexible:				
A	771.40	00	Made in imitation of patent leather.....	Sq. yd.	3.6% ad val.	3.1% ad val.	25% ad val.
A	771.41	00	Other:				
			Of materials other than polyester, polyvinyl chloride, polyethylene, or polypropylene, over 0.006 inch in thickness, and not in rolls.....	Lb.	6% ad val.		25% ad val.
A	771.43		Other:				
		10	Of polyester.....	Lb.	3.1% ad val.	4.2% ad val.	25% ad val.
		12	Of polyvinyl chloride.....	Lb.			
		14	Of polyethylene.....	Lb.			
		16	Of polypropylene.....	Lb.			
		30	Other:				
			Not over 0.009 inch in thickness.....	Sq. yd.			
		34	Over 0.009 inch in thickness.....	Sq. yd.			
A	771.45	00	Other:				
			Of acrylic resin.....	Lb.	8.5c per lb.		50c per lb.
A	771.50	00	Of casein.....	Lb.	3.1% ad val.	2.7% ad val.	17% ad val.
A	771.55	00	Other.....	Lb.	7.9% ad val.	5.8% ad val.	35% ad val.

Taiwanese producers have been successful in having acrylic sheet classified under items 771.41 and 771.43, TSUS, both of which are "basket" provisions for so-called flexible plastic sheet. On the other hand, for that limited portion of total imports of acrylic sheet from Taiwan that are classified under item 771.45, TSUS by virtue of their proper characterization as "of acrylic resin," GSP benefits are not, and for the past four years have not been, available because they exceeded competitive need limits.

If the GSP benefits were not accorded to any tariff item number the description of which began with the word "other," none of the tariff items currently used by the Taiwanese to classify acrylic sheet would be eligible for GSP treatment. This would accord with the fact that over 50 percent of all acrylic sheet imports are sourced from Taiwan.

For product groupings, such as those shown in items 694.63-694.66, TSUS, which are reproduced below, there is sufficient product detail to override the presumption that the word "other" would preclude GSP treatment for the ensuing subsidiary provisions:

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1983)

Page 626

SCHEDULE 8. - METALS AND METAL PRODUCTS
Part 8. - Transportation Equipment

6-8-C, D

694.16 - 694.70

C S P	Item	Stat. Suf- fix	Articles	Units of Quantity	Rates of Duty		
					1	LBOC	2
			Other aircraft and parts thereof:				
A	694.63	00	Balloons and airships.....	Sq. yd.	6.5% ad val.		27.5% ad val.
A	694.64	00	Gliders.....	No.	6.5% ad val.		27.5% ad val.
A	694.65	00	Ropes and parts thereof.....	Sq. yd.	8.8% ad val.	3% ad val.	30% ad val.
A	694.66	00	Airplanes.....	No.	3% ad val.		30% ad val.
A	694.67	00	Other parts.....	Sq. yd.	2.5% ad val.	Free	27.5% ad val.

Thus, a safeguard mechanism exists to insure that deserving product classes are not denied GSP benefits.

SUMMARY

In the brief time available to us, we have attempted to acquaint you with a source of competition that is simply not deserving of the benefits bestowed under the Generalized System of Preferences. The Taiwanese producers are well established, mature and internationally competitive, their industry having been established as early as 1959 with substantial increases in production since GSP benefits began in 1976. As I am sure is the case with foreign manufacturers of other products, the Taiwanese have realized that the "basket" or multiple product groupings inherent in our Tariff Schedules make ideal cover for market penetration under protection of "other" products that become thus grouped.

In your recommendations to the Congress and in the formulation of Administration action, may we respectfully urge that no GSP benefits be accorded any tariff item description beginning with the word "other" unless you are satisfied that there is additional qualifying language that restricts the subject importations to a given product line. Alternatively, examination of the competitive need limitations on the basis of the seven-digit statistical tariff item number may eliminate certain abuses presuming that even this is subject to challenge if multiple product groupings or manufactures of multiple source materials are included in a single provision.

This concludes our testimony. We will be pleased to answer any questions you may have of us.

Chairman GIBBONS. What percent of the production cost of acrylic sheet is petrochemical?

Mr. BARTOSIC. Pardon me, Mr. Chairman?

Chairman GIBBONS. What percent of the production cost of acrylic sheet is petrochemical? How much of it is the barrel of oil?

Mr. BARTOSIC. Offhand, I do not know.

Chairman GIBBONS. Is there anything else in it besides oil?

Mr. BARTOSIC. No. That is the starting point. It is broken down from there, from which the petrochemicals are made and then made into the methylmethacrylate monomer.

Chairman GIBBONS. I was just wondering, how do they produce there so cheaply? I would not imagine that it would be a very labor-intensive operation, would it?

Mr. BARTOSIC. Well, it is when you are making sheets, yes. The making of the sheet is labor-intensive. The making of the monomer is not.

Chairman GIBBONS. Do you mean there is a lot of handling in making a sheet?

Mr. BARTOSIC. Yes, because the way you make it, Mr. Chairman, is you cast it between two pieces of plate glass, and you have to put gaskets in there and you actually make a mold, into which you pour the monomer and the other catalysts, and then you have to cure it in the oven. And there is quite a bit of labor involved, and of course labor costs are quite low over there.

Chairman GIBBONS. Yes, I understand that.

I regret that we have run out of time. We have got so many other witnesses today and so little time. I thank you gentlemen for coming and I would thank you for your participation.

Our next witness is Ruth Hinerfeld of the League of Women Voters.

STATEMENT OF RUTH HINERFELD, PAST PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

Ms. HINERFELD. Thank you very much, Mr. Chairman.

Mr. Chairman, I am Ruth Hinerfeld, past president of the League of Women Voters of the United States. I was a member of the Advisory Committee for Trade Negotiations from 1975 to 1982, in the course of which I chaired its subcommittee on GATT reform and the developing countries. It is as the past president of the League of Women Voters that I am here today, to present the League's views on the renewal of a generalized system of preferences.

With your permission, Mr. Chairman, I would like to submit my written statement for the record, and present to you its highlights with some additional comments.

The League of Women Voters has supported the generalized system of preferences since its inception, and it supports its renewal. The League's support is based upon its position favoring the liberalization of trade through systematic reduction of tariff and non-tariff barriers and its position in support of U.S. policies to promote self-sustaining economic growth for the developing countries.

Both positions are of long standing, the trade position from the early thirties and the first Trade Agreements Act, the development position since the days of point 4 of the Marshall plan. League members have modified those positions over time to incorporate the growing recognition of the interrelationships among foreign and domestic economic policy, the developed and developing world, trade, aid, investment, and monetary policy.

In that context, League members consider the GSP as but one of the foreign economic policy tools for promoting the economic development of the Third World, but it has been and it continues to be a very important tool for helping the developing countries to compete more equitably with the developed countries, to increase their exports, to earn the foreign exchange they need to modernize their economies, to pay their debts, overcome poverty, and raise their people's standard of living.

Members of the League believe that the benefits of GSP continue to accrue to this Nation and its citizens as well as to the developing countries and the world economy. The growing role of the developing countries in world trade and production and the importance of developing country trade to the United States has been amply discussed here today, as has the importance of the relative openness of developed country markets and the GSP to that trade.

I would add only that GSP is also of benefit to U.S. consumers, since it makes possible a wider choice among a wider range of goods and lower prices for many products. The GSP is also an important element in establishing the friendly bilateral relations with developing countries that can enhance our national security interests, and it serves our humanitarian interests by spurring economic development to help overcome hunger and poverty in the Third World.

For the developing countries, as I said, the GSP is an essential tool for increasing their export earnings to finance the purchase of goods and technology from the developed countries that they need to diversify and enlarge their economies and lessen their dependence on foreign aid. Economic assistance from the developed countries to the developing countries is far exceeded by developing country receipts from trade.

Because trade is a key element in their development strategies, and often the key to their economic survival, the GSP has an importance to the developing countries that may seem to us to be out of proportion to its benefits, since GSP imports have a value of only about 3 percent of total U.S. imports. Nevertheless, it is a high priority for the developing countries, and it is clear that the outcome of the U.S. GSP renewal will in large measure set the tone for our relations with the developing world for the decade ahead.

League members recognize that the United States must play a leading role on GSP as on other economic issues. U.S. leadership is

particularly needed at the present time in the face of worldwide economic problems: slow growth, structural change, unemployment, and the huge indebtedness of the developing countries. It is true, of course, that the recovery of the U.S. economy is a necessary prerequisite to economic recovery by the developing countries and other nations, but for all but a few of the most advanced developing countries, what trickles down from our recovery will not be enough. They will continue to need, as they have in the past, special and favorable treatment in trade, including the GSP.

League members agree that the United States must meet the special needs of the developing countries by extending a meaningful generalized system of preferences. The GSP, as authorized by the Trade Act of 1974, should be extended for at least 10 years—in this respect we will be following the lead of other developed countries that have already renewed their GSP schemes to the end of this decade or beyond—at the same time, a renewed GSP will have to respond to new realities in world trade.

League members have always been aware that in our trade policy, the United States has to be flexible in the face of changing patterns of world trade, and change they have in the over 8 years since our GSP has been in operation. One of the major changes has been the export success of a number of developing countries. Seven major beneficiary countries now account for almost 75 percent of the value of goods we import duty-free under the GSP. The top 15 are responsible for about 88 percent.

At the same time, however, two dozen or so of the least developed of the developing countries have barely benefitted at all from GSP, nor are they in a position to do so, since they lack both the resources and the infrastructure to produce the manufactured and semimanufactured goods that are, for the most part, products eligible under GSP.

In truth, the formula trade, not aid, really does not work for the less developed developing countries. Nevertheless, a renewed GSP should address their needs by expanding product coverage—a process that has already begun—and by further liberalizing the access provided to them under our GSP scheme.

The most advanced GSP beneficiary countries, on the other hand, have become candidates for the process of product-by-product graduation. In the League's view, a principal objective of the United States vis-a-vis the developing world is the further incorporation of the developing countries into the work of the General Agreement on Tariffs and Trade.

Given the vastly different levels of competitiveness among developing countries, it is not unreasonable to limit benefits for the most advanced, while liberalizing them for the least developed. There can, in fact, be benefits to the economic systems of the most advanced developing countries that move toward nonpreferential treatment, open up their markets, and assume other obligations under the GATT.

If, however, graduation of the products of the advanced developing countries and access for our exports to markets of advanced developing countries are to be major thrusts of a renewed GSP, they should be implemented gradually and incrementally, and in a manner that encourages those competitive LDC's to assume obliga-

tions in the world economic system commensurate with their levels of development, rather than in a manner that effectively kicks them out of the system.

The new formula for competitive need bears serious scrutiny by this subcommittee. Heavyhanded graduation could well result in a decline of some of our bilateral relationships with developing countries, decrease their ability to generate foreign exchange, and disrupt the development progress that has been achieved by several major GSP beneficiaries.

The GSP record to date is positive. It has provided the developing countries with opportunities to expand their exports. At the same time, according to the 5-year review of the program that was submitted to the Congress, it has substantially safeguarded the interests of U.S. producers and workers.

As the League of Women Voters sees it, the GSP has worked and it is still needed, so it makes good sense for the Congress to renew it.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF RUTH J. HINERFELD ON BEHALF OF THE LEAGUE OF WOMEN VOTERS OF
THE UNITED STATES

Mr. Chairman, members of the committee, I am Ruth J. Hinerfeld, immediate past president of the League of Women Voters of the United States. I was a member of the President's Advisory Committee for Trade Negotiations from 1975 to 1982, during which time I chaired its subcommittee on GATT reform and the developing countries. But it is as the former president of the League of Women Voters that I come before you. I am here to represent the League's views on an important challenge that faces this Congress—extension of a meaningful Generalized System of Preferences.

The League's support for the Generalized System of Preferences [GSP] derives from its longstanding position favoring the liberalization of trade policy through the systematic reduction of tariff and nontariff barriers and its related position favoring a mix of trade, aid, investment, and monetary policies that promote self-sustaining economic growth in the developing countries.

League members have supported the Generalized System of Preferences authorized by title V of the Trade Act of 1974 since its inception. They believe that its provisions, which permit duty-free treatment by the United States of certain goods produced by the developing countries, are still needed to make allowances for the inability of developing countries to compete on an equitable basis with developed countries in the international trading system. And they believe that the extension of tariff preferences to certain goods from the developing countries remains an essential tool for international economic cooperation whereby the United States and the nineteen other developed countries that extend GSP benefits help the developing countries to increase their exports, diversify their economies, lessen their dependence on foreign aid and improve their people's standard of living. League members believe that the GSP is also an essential tool for furthering U.S. interests and the leadership role of the United States in the process of world economic recovery.

At a time when that leadership is badly needed, the United States must provide it by maintaining a system of preferences that will promote economic and human development in the Third World. And the Congress must meet the challenge of extending a meaningful Generalized System of Preferences. How we meet this challenge will in large measure set the tone of our relations with developing countries for the next decade.

Several important elements are necessary in a strong renewed GSP program:

The legislation should be extended for at least 10 years. The United States is the only developed country that has not provided for an extension through the end of this decade. Several developed countries have extended their schemes indefinitely.

The product coverage of the GSP should, where possible, be broadened to include additional items produced by developing countries, particularly those items of special interest to the least developed.

Limitation of preferential treatment, or graduation, should be implemented carefully and incrementally, so that we may avoid disrupting the strides in development already achieved by some developing countries.

Members of the League of Women Voters believe that renewal of the GSP makes good sense for the United States.

It makes good economic sense. The developing countries constitute the fastest growing market for our goods, and currently purchase about 40 percent of U.S. exports. The GSP certainly has been a positive influence in this trading relationship. Although imports entering the United States under GSP represent a very small portion of our total imports—only 3 percent—the dollars earned from GSP by individual beneficiary countries are critical to their ability to purchase U.S. exports and, in the case of several of them, to service their enormous debts.

For U.S. consumers, renewal of the GSP will continue to make available a wide range of choice among inexpensive products—products whose price differential from domestically produced goods is particularly important to low income consumers.

GSP renewal also makes good political sense by fostering between the United States and developing countries strong, friendly bilateral relations that enhance our national security interests.

Renewal of the GSP will serve our humanitarian interests, as well, by spurring economic development in a world that is projected to have 6 billion inhabitants by the end of this century and by helping to mitigate hunger and poverty within the Third World.

League members are realistic. They recognize that even though extension of the GSP makes good sense for the United States and does, indeed, contribute to the health of the global economy, it won't eliminate hunger and strife in the poorest developing countries. It won't ensure friendly relations with its 140 beneficiary countries. It is but one among a mix of external trade and financial remedies and internal self-help measures required by ailing developing country economies. But GSP has been and remains a significant tool the United States can use to promote development in the Third World.

The stake of the world's poorer countries in expanding trade is vital to their economic survival. Trade is a key element in their development strategies. Their receipts from exports far surpass the foreign assistance they receive. Without the future expansion of international trade, the developing countries are certain to experience reduced foreign exchange earnings, continuously increasing unemployment and diminished rates of growth in their incomes. In simple terms, without greater access to the markets of the world, the less developed nations cannot hope to finance their continued development or eliminate their widespread poverty. The fact that they would be unable to buy larger amounts of developed country exports would, in turn, have a negative effect on the U.S. economy and prospects for global economic health.

Developing countries are playing an increasingly important role in world trade. They are projected to contribute over one-quarter of the increase in world production between 1980 and 1990. They will account for nearly 30 percent of the increase in world trade between 1980 and 1990. A major factor in the growth of developing country exports and the success of export-oriented development policies during the past decade has been the maintenance of relatively open markets by industrialized countries, including the provision of traffic preferences. For these reasons, it is incumbent upon the United States to remain at the forefront of efforts to promote sustained economic growth through the expansion of trade and the increased participation of developing countries in the international trading system.

One issue that has become increasingly salient within the context of the integration of developing countries into the trading system is the issue of graduation. If graduation is to be a fundamental part of a revised GSP program, it must be implemented in a manner that encourages developing countries to undertake obligations in the world economic system commensurate with their levels of development, rather than in a manner that effectively casts these countries out of that system. It would be a mistake to undertake heavy-handed graduation. It could well result in the decline of our bilateral relationships with developing countries, decrease their ability to generate the foreign exchange necessary to continue to diversify their economies, and set back the fragile development progress that has been achieved by several major GSP beneficiaries.

It is clear that graduation in the GSP has not always led to a redistribution of benefits to the less developed developing countries. The GSP has thus far benefited those countries that are relatively far along in the development path—countries that have the human and natural resources to diversify in order to achieve growth. The least developed countries, crippled by the problems of poverty and rising costs,

are often dependent upon foreign exchange derived from the sale of one or two commodities. They lack the productive capacity and infrastructure to produce the predominantly manufactured and semimanufactured products that are eligible for GSP duty-free treatment. U.S. trade with the least developed countries is very small. Total imports are barely over \$1 billion; our exports to them are valued at only slightly more.

The least developed countries deserve some special attention in an extended GSP. We have already made some improvements in the GSP that have benefited them—the "de minimis" clause and recent efforts to add products of interest to them. Nevertheless, more is needed, and the United States should move expeditiously to further increase the number of products of special interest to the economies of the least developed developing countries.

The GSP record to date is positive. It indicates that the GSP scheme has provided the less developed countries with opportunities to expand their exports. At the same time, according to the five year review of the GSP submitted to the Congress on April 1, 1980, the scheme has safeguarded the interests of U.S. producers and workers. Members of the League believe that although some modifications of the GSP may be warranted, the scheme has proven its initial effectiveness as a mechanism for increasing the economic wealth of the developing countries.

I began my testimony by suggesting that Congress was faced with an enormous challenge in extending a meaningful GSP program. I shall end by suggesting that in the view of the members of the League of Women Voters, the Congress must respond to that challenge by renewing the Generalized System of Preferences.

Chairman GIBBONS. Thank you.

Our next witnesses are a panel from the Leather Products Coalition, Mr. Nehmer, Mr. Friedman, Mr. Cennamo, and Mr. Schleicher.

First, I want to say hello to you, gentlemen. We have heard from you recently. Do you have anything new?

Mr. NEHMER. I am sorry, Mr. Chairman?

Chairman GIBBONS. I said, we heard from you recently. Do you have anything new?

Mr. NEHMER. Yes, we do.

Chairman GIBBONS. Let us stick to the new, because I remember the old.

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, INC., ON BEHALF OF THE LEATHER PRODUCTS COALITION; AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO; AND UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION, AFL-CIO

Mr. NEHMER. Yes, I think we have some new things. We will, however, be telling you about the state of health of this industry and how GSP impacts on it.

Chairman GIBBONS. Did you not cover that in the last hearing we had?

Mr. NEHMER. Do you mean on the Caribbean Basin Initiative?

Chairman GIBBONS. Yes. I got the impression you were not doing very well. I would not lend you any money.

Mr. NEHMER. No, but we hope you will—

Chairman GIBBONS. I understand. I am sympathetic to your cause. But go ahead. I just have to give you a friendly greeting, Stan. You know that.

Mr. NEHMER. Mr. Chairman, my name is Stanley Nehmer, and I am president of Economic Consulting Services. I am here today with a group of representatives from various leather products industries, and we are representing six organizations, the Amalgamated Clothing & Textile Workers Union; the International Leath-

er Goods, Plastics, & Novelty Workers' Union; the Luggage & Leather Goods Manufacturers of America; the National Handbag Association; the United Food & Commercial Workers Union; and the Work Glove Manufacturers Association.

One of our scheduled people, because of the move up in the schedule, has not arrived yet. We would ask that all of our testimonies be put in the record.

Chairman GIBBONS. Yes, we will put Mr. Levy's in and all of yours in.

Mr. NEHMER. We are seriously concerned about the administration's proposals to renew the GSP. We feel that the legislation contains insufficient safeguards for import-sensitive industries, such as the leather-related industries represented here today. Perhaps most astonishing is the absence of graduation of the advanced developing countries from the GSP.

In yesterday's Wall Street Journal, Mr. Chairman, there was an article from Taipei, Taiwan. The Taiwanese see the trade surplus with the United States as risking American protectionist action, and that is the heading of the article. The Taiwanese Government estimates that this year the trade surplus which Taiwan will have with the United States will total \$5.5 billion, compared to \$3.3 billion in 1981, and yet the administration in its proposals on GSP has put forward nothing to graduate advanced developing countries such as Taiwan, Korea, Hong Kong, Mexico, and Brazil.

The current GSP program includes a safeguard provision to insure that GSP eligibility is not granted on products which are import sensitive, particularly where the anticipated impact on the domestic industry of designation of an article as eligible for GSP is negative. Yet once a product is on the GSP list, it is extremely difficult to get it removed.

The experience of the industries represented here today can best be epitomized in the situation with regard to leather wearing apparel. For 3 years, from 1976 to 1978, it was kept on the list despite the efforts made by that industry to remove the item from the GSP list. In that period, imports of leather wearing apparel rose from \$131 million in 1975 to \$318 million in the last year of GSP, and declined after that.

The statute specifically excludes as import sensitive and therefore ineligible for GSP treatment textiles and apparel articles subject to textile agreements, footwear, and watches. This designation is a blanket one. There is no reservation as to the need to make any further determination with regard to import sensitivity. Yet not included in the list of specific import-sensitive products are other products that may be directly competitive with those listed or may otherwise be equally import sensitive.

The products of the industries here before you now are as import sensitive and as import impacted as textiles, apparel, and footwear, and yet they are not statutorily excluded in the current legislation.

Furthermore, as you will hear, the interpretation by the administration of the textile product exclusion has been so arbitrary that a case has had to be filed with the Court of International Trade just this past June 30 by two of our groups to secure a judicial order to direct the administration to remove the textile product from the GSP list.

We ask, as the Congress saw fit to do in the case of the Caribbean Basin Initiative legislation, that the five products of the industries represented here; namely, luggage, personal leather goods, work gloves, handbags, and leather wearing apparel, be added to the statutory exclusions in the legislation. We believe that the reasons why Congress saw fit to do this in the case of the Caribbean Basin legislation apply equally with regard to the extension of the GSP.

Unless that can be accomplished, I am sorry to say, Mr. Chairman, we cannot support the renewal of the Generalized System of Preferences. This exclusion that we are seeking must be similar to the exclusion already contained in section 503(c) of the existing statute. There is no justification, no rationale, no equity in not following the same criteria as Congress followed in the 1974 act when it excluded by law several products by name, all of which were import-sensitive, some of which were labor-intensive, the same criteria which would apply to these five leather-related products.

Now, the balance of my testimony, Mr. Chairman, which I will not go into, provides in considerable detail some of our comments on the administration's proposals, and we also comment on some of the problems with the existing legislation which the administration has not seen fit to correct.

And now I would like to call on my colleagues to go into some of the details. First of all, Seymour Friedman, from Miami, Fla., who is the president of the Luggage and Leather Goods Manufacturers Association and the president of Pegasus Luggage.

[The prepared statement follows:]

STATEMENT OF STANLEY NEHMER

SUMMARY

Members of the Leather Products Coalition are seriously concerned about the Administration's proposal to renew the GSP. The legislation contains insufficient safeguards for import-sensitive industries, such as the leather-related industries; perhaps more astonishing is the absence of graduation of the advanced developing countries from the GSP.

The leather-related industries cannot support renewal of the GSP unless the five leather-related products—luggage, handbags, personal leather goods, work gloves, and leather wearing apparel—are statutorily excluded from the GSP, as was done by the House and Senate in the CBI Legislation.

One of the most troublesome aspects of the Administration's proposal is the dramatic twist that it has taken in its approach to the GSP program. By altering the focus of the GSP program from one which offers trade preferences with little or no strings attached, the Administration has chosen to tie directly GSP eligibility to the degree to which developing countries open their markets to U.S. exports. The proposal to related preferential treatment to market access is not only inappropriate in the context of the GSP, but will be at the expense of U.S. import-sensitive industries and the less developing countries most in need of preferential treatment. Instead, the most advanced developing countries should be graduated from the GSP.

STATEMENT

My name is Stanley Nehmer and I am President of Economic Consulting Services Inc. I am appearing today along with representatives of several members of the Leather Products Coalition, a group of trade associates and labor unions in leather-related industries which I serve as consultant.

The organizations represented here today are: Amalgamated Clothing and Textile Workers Union, AFL-CIO; International Leather Goods, Plastics and Novelty Workers' Union, AFL-CIO; Luggage and Leather Goods Manufacturers of American, Inc.;

National Handbag Association; United Food and Commercial Workers International Union, AFL-CIO; and Work Glove Manufacturers Association.

The products manufactured by these organizations include luggage, handbags, personal leather goods, work gloves, and leather wearing apparel. The Amalgamated Clothing and Textile Workers Union and the United Food and Commercial Workers Union also represent workers in the footwear industry. Footwear, of course, is already statutorily excluded from the GSP. The two shoe unions wish to note that they are pleased that the Administration's GSP renewal legislation correctly continues this statutory exclusion.

We are seriously concerned about the Administration's proposals to renew the GSP. The legislation contains insufficient safeguards for import-sensitive industries, such as the leather-related industries represented here today; perhaps most astonishing is the absence of graduation of the advanced developing countries from the GSP. These are two of the important issues which we will address in our remarks today.

The current GSP program includes a "safeguard" provision to ensure that GSP eligibility is not granted on products which are import-sensitive, particularly where the "anticipated impact" on a domestic industry of designation of an article as eligible for GSP is negative. Yet, once a product is on the GSP list it is extremely difficult to remove it based on the standard of import-sensitivity.¹ Since the GSP program began, 256 products valued at \$1.3 billion have been added to the GSP list, while only 31 products, valued at \$0.6 billion, have been removed.

The statute specifically identifies certain articles as import-sensitive, and therefore ineligible for GSP treatment—textiles and apparel articles subject to textile agreements, watches, and footwear. This designation is a "blanket" one, made with no reservation as to the need to make any further determination regarding which of these articles are import-sensitive. For certain other products—namely electronics, steel, and glass products—a further determination regarding import-sensitivity is still required, despite the specific reference in the statute to these products. Yet, not included in the list of specific import-sensitive products in the relevant section of the statute are other products that may be directly competitive with those so listed or may otherwise be equally import-sensitive. Furthermore, as you will hear, the interpretation by the Administration of the textile product exclusion has been so arbitrary that a case has had to be filed with the Court of International Trade by two of our groups to secure a judicial order to direct the Administration to remove a textile product from the GSP list.

Certainly the import-sensitivity of the five leather-related products not currently statutorily excluded from the GSP is at least as great as for the products enumerated in Section 503(c)(1). Few industries in the United States have been as severely injured at the hands of imports from developing countries as have the leather-related industries. The domestic industries producing luggage, handbags, flat goods, work gloves, and leather wearing apparel have all experienced the adverse effects of massive levels of imports. These import-sensitive industries cannot afford any further loss of market share.

When the original GSP legislation was enacted in early 1975, the import situation of these industries was not nearly as bad as it is today. Between 1975 and 1982, imports of leather-related products increased tremendously at the expense of U.S. production, market share and jobs. Table 1 attached to my testimony provides some selected economic indicators on these industries. These data show that current (1982) import penetration in the leather-related industries range from an estimated 30 percent for personal leather goods to about 85 percent for handbags. Moreover, almost 4,000 jobs have been lost in the luggage, personal leather goods, and handbag industries between 1981 and 1982 alone, as the unemployment rate in the leather and leather products sector rose to a staggering 17.4 percent last year. Available data for 1983 indicate that the trend of increasing imports and declining domestic employment is continuing. Clearly, imports of leather-related products do not need preferential duty treatment to penetrate the U.S. market. In fact, in the case of all of the industries represented here today, the advanced developing countries account for a

¹ A classic example of an import-sensitive article which remained on the preference list for three years before the domestic industry finally prevailed in having it removed is leather wearing apparel. Even though import penetration was high—about 50 percent—and growing, while domestic production and employment were declining, it took three years for the domestic industry to convince the executive branch to remove leather wearing apparel from the GSP list. Ironically, a year or so later, leather wearing apparel was the subject of a unanimous finding of serious injury from imports by the U.S. International Trade Commission in an "escape clause" case, thereby meeting that highest threshold of injury.

majority of imports. Some 85 percent of U.S. handbag imports, 82 percent of luggage imports, 73 percent of leather wearing apparel imports, 60 percent of flat goods imports, and 60 percent of (non-textile) work glove imports, are supplied by the largest three GSP beneficiary countries—Taiwan, Korea, and Hong Kong—alone.

At this point in time, I would hope that the import-sensitivity of these industries would finally be acknowledged by the U.S. Government. All but the personal leather goods and leather wearing apparel industries have received technical assistance grants from the U.S. Department of Commerce designed to aid import-impacted industries. The personal leather goods industry has an application for such assistance now pending before Commerce. Workers in all of the leather-related industries have received adjustment assistance. The majority of them has not been able to find alternative employment. The leather wearing apparel industry received a unanimous finding of serious injury from imports by the ITC in the 1980 "escape clause" case. Moreover, most of these leather-related products are not on the preference list, a situation consistent with their import-sensitivity. But these industries have had to constantly defend their position over the last eight years when different petitions from foreign entities for GSP treatment were considered by the Executive Branch. This has meant time and money these industries could ill afford.

And most recently, the extreme import-sensitivity of the leather-related industries was recognized in the exclusion that this Subcommittee granted leather-related products from duty-free treatment under the Caribbean Basin initiative legislation and which was included in the CBI bills passed by both the House and the Senate. The rationale for the CBI exclusion is directly relevant here as well.

I believe that, among the appropriate criteria to be used in determining import-sensitivity in the context of GSP, are (1) those products considered to be as import sensitive as the products listed by Congress in Section 503(c) (1) of the Trade Act of 1974, and (2) those products where developing countries are already successfully penetrating the U.S. market. Clearly, leather-related products meet both of these criteria.

Notably, in the case of most of the leather-related products, they compete to some degree with products already statutorily excluded from the GSP. The nature of the leather-related products makes them interchangeable with other similar products; imports of particular product types compete across the entire range of products. For example, a leather handbag competes directly with a handbag of textile materials, leather luggage competes with nylon luggage and leather work gloves compete with cotton work gloves. Leather-related products thus often compete directly with similar items manufactured of textile materials. Yet the items manufactured of textile materials are statutorily excluded from the GSP under Section 503(c)(1); leather-related products are not.

If the GSP program is to be reauthorized, import-sensitive industries must be granted adequate protection against duty-free imports. The only adequate safeguard for these leather-related industries is statutory exemption from the GSP.

Thus, the leather-related industries before you today cannot support the renewal of the Generalized System of Preferences unless the five leather-related products not currently statutorily excluded from the GSP—luggage, handbags, personal leather goods, work gloves, and leather wearing apparel—are also statutorily excluded from the GSP, as was done by the House and Senate in the CBI legislation. This exclusion must be similar to the exclusion already contained in Section 503(c) (1) (A), (B) or (E). There is not justification, rationale, or equity in not following the same criteria as Congress followed in the Trade Act of 1974 when it excluded by law several products by name, all of which were import sensitive and some of which were labor-intensive, the same criteria which would apply to these five leather-related products.

I would also like to comment in general on the Administration's legislative proposals for the renewal of GSP, and, in this context, address the issue of graduation, one of the thorniest areas of the GSP program.

It has long been recognized that, as circumstances change, any special treatment made generally available to developing countries would have to be phased out for individual LDCs as they "graduate," or become more developed. This principle is the cornerstone around which the GSP program was originally constructed.

The Congress eliminated certain countries from coverage under the GSP program in Section 502(b) of the Trade Act of 1974. At the same time, the Congress established in Section 502(c) certain criteria for designation of beneficiary developing countries. These criteria including "the level of economic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he [The President] deems appropriate; and the extent to which such country has assured the United States it will pro-

vide equitable and reasonable access to the markets and basic commodity resources of such country."

It surely is not in the longer-term interest of U.S. foreign and economic policies to perpetuate a "two-tier trading system" in which the majority of the world's trading nations are permanently classed as LDCs. The global economy is after all a dynamic system, and relative shifts in economic strength among countries will have to be accommodated sooner or later—especially since an increasingly-elaborate network of special trade arrangements, like the GSP, will only intensify the costs of delayed adjustment. We should consider what would have happened, for example, if the GSP system had been in place in 1950, when Japan was generally regarded as a developing country. At what point during the past 30 years would it have been "convenient" to remove Japan from the eligibility list? What would have been the economic and political costs, domestically and internationally, of delaying such action? Similarly, a number of rapidly-growing developing countries are crossing the transition line to developed status. In fact, certain advanced "developing" countries have now actually overtaken some of the member-states of the European Economic Community in terms of per capita GNP, and others are on the verge of doing so.

When one sees that 64 percent of all GSP duty-free imports in 1983 came from five countries (an increase from the time graduation was first initiated), and 88 percent came from 15 countries (see Tables 2 and 3), one would have to conclude that this concentration of benefits among a relatively small number of countries cannot really be considered an indication of the "success" of the program. At the very least the top five beneficiaries—Taiwan, Korea, Hong Kong, Mexico, and Brazil—have now graduated to the stage of economic development where, having clearly established their competitive position in the U.S. market, they no longer need the benefits of GSP duty-free treatment on their exports to the United States. Moreover, many of the industries in these countries benefiting from GSP are far from "infant" industries and in many respects are as sophisticated as their U.S. counterparts. This is certainly the case in leather-related products.

Each of these countries has experienced significant increases in per capita GNP since the pre-GSP period. Between 1975 and 1980 per capita GNP of each of the top five countries at least doubled. In 1980 Hong Kong enjoyed a per capita GNP of \$4,210, a 139 percent increase from the 1975 level. Korea's per capita GNP rose by 170 percent in this period, Taiwan's by 141 percent, Brazil's by 99 percent, and Mexico's by 102 percent (see Table 4 attached to my statement).

Continued accordance of GSP treatment to those countries should certainly be scrutinized carefully and can no longer be justified by the terms of the statute. It is hurting those lesser developed countries which legitimately can use the help of the GSP program and for which the program was intended. It is also hurting those domestic industries whose firms and workers are shouldering the burdens of according GSP duty-free treatment on products from such countries.

A strong case can also be made for excluding all developing countries except the LDDCs—the UN-designated least developed of the developing countries. Perhaps this should be done, but if the top five countries are excluded by law and the product exclusions for import sensitivity as suggested in my statement are adopted, the groups represented here today would certainly feel more comfortable about continuation of the GSP program.

Yet instead of proposing automatic graduation of the most advanced developing countries from the GSP—and thereby ensuring that the GSP benefits are directed toward the less developed countries—the Administration has proposed an entirely different approach.

In fact, one of the most troublesome aspects in the Administration's proposal is the dramatic twist that it has taken in its approach. By altering the focus of the GSP program from one which offers trade preferences to developing countries with little or no strings attached, the Administration has chosen to tie directly GSP eligibility to the degree to which the developing countries open their markets to U.S. exports. I cannot characterize this as anything but a rather cynical approach—the GSP was never intended to be a U.S. export promotion program.

Moreover, I can only assume that the proposal to renew GSP has taken on this new character largely because of the Administration's failure to gain passage of other proposals which would have allowed the President to negotiate tariff reductions in exchange for market access. Legislation to extend the President's residual tariff cutting authority in Section 124 of the 1974 Trade Act met tremendous opposition from U.S. import-sensitive industries and had to be abandoned. The Administration had reportedly planned a North-South negotiating proposal to establish a new column in the Tariff Schedule for the Newly Industrializing Countries (NICs) in order to achieve broader access for U.S. products in NIC's markets. This too was

controversial. Instead of these proposals, we now have the Administration's proposed, substantially revamped, GSP program.

I have examined carefully the Administration's proposal to renew the GSP. I find it disingenuous at best and misleading at worst. I have participated in discussions of GSP extension within the framework of the Industry Sector Advisory Committees, and I have been working closely with the GSP task force of the U.S. Chamber of Commerce. As you know, under the current GSP program and its competitive need limitations, countries are not eligible to receive duty-free treatment on a product for which its exports in the previous calendar year exceeded either a specified dollar amount (currently \$53.3 million for 1982) or accounted for 50 percent or more of total U.S. imports of the product. As amended by the 1979 Trade Act, this competitive need limitation is not binding in cases in which the value of total U.S. imports of a product is de minimis. We had understood the Administration's proposal for GSP renewal to consist of an automatic reduction (i.e., tightening) in the competitive need limitation to \$25 million or 25 percent for the advanced developing countries, with the possibility of increasing (i.e., easing) and returning the competitive need limitation to \$53.3 million or 50 percent if the countries open their markets to U.S. exports. The leather-related industries considered this an unacceptable proposal.

Yet the proposed legislation goes far beyond this. The legislation recently sent to Congress grants the President the broadest discretion possible in setting the competitive need limitation for developing countries. New subsection 504(c)(2) gives the President authority to waive completely the competitive need limitation if it is in the "national economic interest of the United States," and if the "country has assured the U.S. that it will provide equitable and reasonable access" to their markets. Thus not only can the President waive the new \$25 million or 25 percent limit, he can also waive the \$53 million or 50 percent limit if he so chooses. Furthermore, nothing may happen for two years after enactment, that is the period in which negotiations can take place before the President reduces the competitive need limit, if he chooses to do so. Countries designated as "least developed," with no further determination, will be exempt from any competitive need limitation.

The Administration's proposal places far too much discretion for the operation of the GSP in the hands of the President. The administration clearly intends to use GSP as a negotiating tool to persuade developing countries to open their markets in turn for preferential treatment. This arrangement can only be at the expense of U.S. import-sensitive industries, as well as at the expense of the less developing countries most in need of preferential treatment. Indeed, this approach can only enhance the position of the advanced developing countries.

In addition to the issues which I have already addressed, there are also a number of other concerns of the leather-related industries regarding procedural issues and the administration of the GSP program.

First, I want to comment on the petition process itself, primarily with respect to petitions to add products to the GSP list. In 1982, over 500 requests to modify the GSP were received by USTR. From this group, petitions for the addition of some 60 products to the GSP list were accepted for further analysis in the annual product review. Most of these petitions were filed by foreign governments. As you know, the regulations governing the GSP operation require that petitions include some very specific information regarding the relevant foreign and U.S. industries. Yet what we have seen time and time again are petitions by foreign governments which are merely "shopping lists" or "wish lists" of products that they would like added to the preference list. Often the petitions contain little more than the product description and perhaps U.S. import data. Rarely do the petitions demonstrate—or even attempt to demonstrate—that the current duties are a constraint to their exports of these products, nor do they provide any detailed information, as called for in the regulations, on the impact of possible GSP treatment on the operations of firms producing these products. This is in sharp contrast to the requirements imposed upon domestic parties petitioning to have an item removed from the GSP list.

Second, another problem in the procedure to accept petitions relates to what I consider to be the "hunt-and-peck" method sometimes used in determining which petitions to accept. We have seen this occur with respect to handbags, luggage and, most recently, with respect to work gloves. With long list of items for which foreign governments have petitioned to add to the GSP list, the Trade Policy Staff Committee surveys the U.S. Tariff Schedules and determines that, despite the given import-sensitivity of a U.S. industry, some specific TSUS item within that industry could perhaps be added to the preference list because its import penetration is relatively low compared to other products of the industry. This is what I mean by the "hunt-and-peck" method. However, it is our position that an industry's import sensitivity

cannot always be decided on an item by item basis, particularly since such items likely compete with other items within a market and since manufacturers likely produce more than one discrete product line. Thus, leather luggage or plastic work gloves may represent relatively stronger segments within highly import sensitive industries, yet to single out these products for duty-free treatment, if granted, may place the entire industry in jeopardy. The one item not on the GSP list may be the only one keeping the industry viable, but that viability could be jeopardized if duty-free entry is accorded that item.

Third, a major procedural problem arises because of what I would call "double jeopardy" situations. Not only is the case heard by the GSP Subcommittee of the Office of the U.S. Trade Representative, but the case is also referred to the International Trade Commission for its advice as to the probable economic effect of GSP designation on relevant U.S. industries and on consumers. This process involves two sets of hearings which basically entail virtually identical testimonies on the part of witnesses. The time and expense involved in two hearings—the "double jeopardy"²—on the same subject can be an excessive burden to many firms and industries involved in a GSP petition. In the case of a small industry, with many small firms, such as the leather-related industries, this is particularly burdensome.

Fourth, the absence of a published evaluation or report on a case is another procedural deficiency. The result of the Trade Policy Staff Committee's consideration of a petition is no more than a Federal Register notification which states only whether or not an article is added to or deleted from the preference list. In some cases, a petitioner is sent a letter advising him briefly of the rationale for a negative conclusion reached by the Trade Policy Staff Committee. Such reports are very sketchy and only provide the bare bones of the conclusions in the case. Moreover, the ITC reports to the TPSC in such cases are not made publicly available, since they are considered advisory in nature. Thus, the petitioner and other interested parties are offered minimal information regarding the basis of the decision with respect to the petition to modify the GSP.

Finally, I must raise an important point about GSP which is not strictly procedural but which is undermining the effectiveness of the Subsidies Code negotiated during the MTN. The principal advantage which foreign countries derive from joining that Code is the requirement for an injury test in any countervailing duty investigation involving signatory countries' exports to the U.S. However, because the Trade Act of 1974 requires an injury test in any case involving duty-free imports a major incentive is lacking for developing countries—to the extent their exports to the U.S. come in under duty-free GSP treatment—to adhere to the Subsidies Code. GSP treatment is neither a permanent concession nor a bound tariff obligation on the part of the United States. It should thus be a fairly straightforward matter to amend the legislation so that, for the purposes of requiring proof of injury in countervailing duty investigations, a distinction is drawn between MFN or "statutory" duty-free treatment and that which is accorded certain countries, temporarily, under the GSP program.

In conclusion, the organizations represented here today feel that it is essential that action be taken on at least two fronts in the renewal of GSP. Most important is an exclusion for luggage, handbags, flat goods, work gloves, and leather wearing apparel from the GSP. Additionally, even if this exclusion is granted, we believe that the Administration's proposal to relate preferential treatment to market access is inappropriate in the context of the GSP and should be abandoned. It is our recommendation that an alternative approach of graduating the most advanced developing countries from the GSP be adopted. On the issue of procedures, solutions to the administrative problems which I have outlined in my testimony should be readily apparent.

The other members of our panel will speak about the situation in their industries and why the proposed GSP legislation can create harm for firms and workers in their industries.

² As to the system has evolved in recent years this might be termed more properly "triple jeopardy." During the period in which the GSP Subcommittee is considering whether or not to accept petitions to add products to the GSP list, it is often necessary for a domestic industry to begin its efforts in opposition to the petition. If the domestic industry's efforts to prevent the acceptance of a petition fail, the industry then readies itself for the two hearings termed "double jeopardy."

Table 1

SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE
LEATHER-RELATED INDUSTRIES

	<u>Nonrubber Footwear</u>	<u>Luggage</u>	<u>Personal Leather Goods</u>	<u>Handbags</u>	<u>Leather Apparel</u>	<u>Leather Work Gloves</u>
<u>Employment</u> (number of employees)						
1977	156,900	17,300	33,100		6,700	5,500
1980	143,600	16,300	30,000		5,000	6,100
1981	146,400r	15,200r	30,600r		N/A	N/A
1982	136,800r	14,000r	28,200r		N/A	N/A
Jan.-Mar. 1982	138,000r	14,100r	28,900r		N/A	N/A
Jan.-Mar. 1983	132,500	12,600	25,100		N/A	N/A
<u>Production/ Shipments</u>	(million prs.)	(million dollars)	(million dollars)	(million units)	(million dollars)	(thousand dz. prs.)
1977	418.4r	585.0	319.0	55.8	150.9	3,710
1980	386.3r	808.0	426.0	47.9r	192.6	2,878
1981	380.4r	740.2r(E)	441.6r(E)	46.5r	186.5	2,756
1982	331.4r	695.7r(E)	415.4r(E)	38.8r	N/A	2,400(E)
Jan.-Mar. 1982	86.5	N/A	N/A	N/A	N/A	N/A
Jan.-Mar. 1983	91.2	N/A	N/A	N/A	N/A	N/A
<u>Imports</u>	(million prs.)	(million dollars)	(million dollars)	(million dollars)	(million dollars)	(thousand dz. prs.)
1977	368.1	118.0	44.0	207.1	220.4	2,090
1980	365.7	243.2	71.9	350.6	170.9	3,175
1981	375.4	291.9	84.1	406.2	207.1	3,028
1982	479.5	334.8	87.5	409.6	252.0	3,091
Jan.-Mar. 1982	129.8	67.4	18.2	91.1	34.2	759
Jan.-Mar. 1983	160.4	77.1	20.5	106.7	39.4	778
<u>Import Penetration*</u> (percent)						
1977	47.1	N/A	N/A	62.9	N/A	36.8
1980	49.5r	N/A	N/A	77.7r	N/A	52.4
1981	50.4r	40.0(E)	30.0(E)	81.4r	56.0(E)	52.2
1982	59.8r	N/A	N/A	83.5(E)	N/A	56.3
Jan.-Mar. 1982	60.6	N/A	N/A	N/A	N/A	N/A
Jan.-Mar. 1983	64.2	N/A	N/A	N/A	N/A	N/A

* Where import and domestic production data are available only in terms of value, import penetration has been estimated.

r -- revised.

(E) -- Estimated.

N/A -- Not available.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce and Bureau of Labor Statistics data.

Table 2

SHARE OF THE FIVE MAJOR GSP BENEFICIARIES IN TOTAL
GSP DUTY-FREE IMPORTS, 1976-1982
(million dollars)

	1976	1977	1978	1979	1980	1981	1982
All beneficiaries	3,160.3 (100%)	3,838.0 (100%)	5,204.2 (100%)	6,280.0 (100%)	7,327.7 (100%)	8,395.5 (100%)	8,426.0 (100%)
Major Five Beneficiaries	1,870.2 (59%)	2,641.2 (69%)	3,544.9 (68%)	4,191.6 (67%)	4,366.2 (60%)	5,058.0 (60%)	5,380.0 (64%)
Taiwan	728.0 (23%)	911.6 (24%)	1,433.4 (28%)	1,720.9 (27%)	1,835.4 (25%)	2,224.9 (26%)	2,333.0 (28%)
Hong Kong	346.9 (11%)	486.0 (13%)	537.5 (10%)	629.3 (10%)	803.5 (11%)	795.4 (9%)	795.0 (9%)
Korea	327.5 (10%)	531.5 (14%)	647.6 (12%)	749.9 (12%)	775.8 (11%)	890.0 (11%)	1,089.0 (13%)
Mexico	253.1 (8%)	368.3 (9%)	458.3 (9%)	546.0 (9%)	509.2 (7%)	633.0 (8%)	599.0 (7%)
Brazil	214.7 (7%)	343.8 (9%)	468.1 (9%)	545.5 (9%)	442.3 (6%)	514.6 (6%)	564.0 (7%)
All others	1,290.1 (41%)	1,236.8 (31%)	1,659.3 (32%)	2,088.4 (33%)	2,961.5 (40%)	3,337.5 (40%)	3,046.0 (36%)

Source: Office of the U.S. Trade Representative.

Table 3

SHARE OF MAJOR GSP BENEFICIARIES IN TOTAL GSP
DUTY-FREE IMPORTS, 1982

	<u>Million Dollars</u>	<u>Percent of Total</u>
All Beneficiaries	8,426	100.0
Taiwan	2,333	27.7
Korea	1,089	12.9
Hong Kong	795	9.4
Mexico	599	7.1
Brazil	564	6.7
Subtotal, Major 5 Beneficiaries	5,380	63.8
Singapore	429	5.1
Israel	407	4.8
India	188	2.2
Yugoslavia	179	2.1
Argentina	173	2.1
Thailand	162	1.9
Chile	150	1.8
Philippines	137	1.6
Peru	104	1.2
Portugal	103	1.2
Subtotal, Major 15 Beneficiaries	7,412	88.0
All Others	1,014	12.0

Source: Office of the U.S. Trade Representative.

Table 4

GNP PER CAPITA OF MAJOR BENEFICIARY DEVELOPING COUNTRIES
UNDER THE GSP PROGRAM, 1975, 1978, 1980 ^{1/}

(in U.S. \$)

	<u>1975</u>	<u>1978</u>	<u>1980 ^{1/}</u>	<u>Percent Change 1975-1980</u>
Taiwan	931	1,710	2,240	+140.6
Korea	563	1,310	1,520	+170.0
Hong Kong	1,762	3,340	4,210	+138.9
Mexico	1,055	1,400	2,130	+101.9
Brazil	1,028	1,510	2,050	+99.4
Singapore	2,446	3,260	3,770	+54.1
Israel	3,974	3,730	4,500	+13.2
India	140	180	240	+71.4
Yugoslavia	1,550	2,100	2,620	+69.0
Argentina	1,550	2,030	2,390	+54.2
Thailand	350	530	670	+91.4
Chile	990	1,470	2,160	+118.2
Philippines	380	530	720	+89.5
Peru	760	680	930	+22.4
Portugal	1,570	1,940	2,350	+49.7
Uruguay	1,302	1,790	2,820	+116.6

^{1/} Preliminary figures for 1980.

Source: World Bank Atlas, various editions.

Chairman GIBBONS. Mr. Friedman.

STATEMENT OF SEYMOUR FRIEDMAN, LEATHER PRODUCTS COALITION, PRESIDENT, LUGGAGE & LEATHER GOODS MANUFACTURERS OF AMERICA, INC., AND PRESIDENT, PEGASUS LUGGAGE CO.

Mr. FRIEDMAN. Thank you, Mr. Chairman.

I am appearing as part of the Leather Products Coalition, members of which are seeking an exclusion of their products from the generalized system of preferences. Furthermore, I would like to comment on what I consider to be other controversial aspects of the proposed renewal. I am going to divert from my statement, for the sake of time and redundancy.

We feel very strongly that the consideration of the renewal of GSP should take into consideration the worsening conditions in the leather-related industries, and it should therefore exclude the leather-related products from the GSP, as Congress correctly saw fit to do in the Caribbean Basin Initiative.

Rapidly increasing U.S. imports of leather products has been a cause of declining domestic production and jobs in these industries. Luggage imports have relentlessly increased, while domestic shipments have been on a decidedly downward trend. Imports increased fivefold between 1975 and 1980, from \$49 million to \$243 million. Real growth in the domestic market during this period was only moderate.

Imports continued to increase further to \$335 million in 1982, representing a 38-percent increase in imports between 1980 and 1982. In the first 5 months of 1983, luggage imports grew an additional 17 percent over the same period of 1982. U.S. shipments of luggage fell by 25 percent in real terms between 1980 and 1982. The industry estimates conservatively that import penetration in the U.S. luggage market is currently in excess of 40 percent in terms of value. In units, we believe import penetration could be as high as 50 percent or more.

In personal leather goods, the situation is similar. Domestic shipments have fallen by 14 percent in real terms between 1980 and 1982. Over the same period, imports rose by 22 percent, and increased an additional 21 percent in the first 5 months of 1983.

According to our estimate, more than 30 percent of the U.S. market has been captured by imports. As with the luggage industry, imports have been increasing at a time when the market has not been growing, and thus imports are at the expense of domestic production.

In 1981, the luggage industry sought and received a technical assistance grant of just under \$250,000 from the U.S. Government. The purpose of the grant was to improve the ability of the industry to compete in the marketplace.

We are just implementing these various programs, and one of the reasons that we are concerned with the GSP is to preserve and maintain some sort of position so that the effects of this particular grant can realize some potential profit to both ourselves and our employees, and this is why we are concerned about the continuing preservation of the process where there is duty, and they will not be eliminated.

With imports continually rising, and no end in sight, and given the current state of the leather-related industries, it is clear why we are seeking an exclusion for our product from the GSP.

I would like to relate to the members of the Subcommittee a policy and legal problem that the personal leather goods industry is having with the GSP program. The issue involves one of the few luggage or personal leather goods items currently on the GSP list—man-made fiber flat goods, that is, wallets, change purses, et cetera. Man-made fiber flat goods were designated as a GSP eligible article effective March 31, 1981.

In recognition of the fact that these flat goods are properly covered by the multifiber arrangement, the Department of Commerce officially accorded this item a correlation number for inclusion under the MFA category system effective January 1, 1982. The failure to accord this TSUS item a correlation number in the first place was, we believe, an oversight.

As you know, the statute specifically excludes from GSP treatment under section 503(c)(1)(A) "textile and apparel articles which are subject to textile agreements." Clearly, man-made fiber flat goods are such articles, "subject to textile agreements," and therefore should be ineligible for GSP.

Now, in our view, there thus exists a serious inconsistency between the trade statutes and the GSP program. Unfortunately, despite major efforts over the last 2 years by firms and workers in the personal leather goods industry to remove man-made fiber flat goods from the GSP list, based on the statutory exemption, this item remains on the preference list today.

With our efforts to persuade the administration being unsuccessful to date, the Luggage & Leather Goods Manufacturers Association and the International Leather Goods, Plastics, & Novelty Workers Union had no recourse but to challenge the complaints of the executive branch in the courts. Therefore, our complaint was filed with the U.S. Court of International Trade in June, which charges the President and Ambassador Brock among others with illegally designating man-made fiber flat goods as eligible articles under the GSP, notwithstanding the statutory exclusion of textile and apparel products.

It is unfortunate that an industry such as ours has had to resort to the courts with its accompanying legal costs to correct the terrible injustice. What this situation illustrates is that even when Congress thought it had spoken clearly in the law, the executive branch has interpreted the statute as it sees fit. Yet Congress is being asked by the Administration to give it even more discretionary authority. If it extends GSP, the only solution for an industry such as ours is to be excluded by name from duty-free treatment.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF SEYMOUR FRIEDMAN, PRESIDENT, LUGGAGE & LEATHER GOODS MANUFACTURERS OF AMERICA, INC., AND PRESIDENT, PEGASUS LUGGAGE CO., MIAMI, FLA.

SUMMARY

The luggage and personal leather goods industries, along with the other industries in the leather products sector, are labor-intensive and import-sensitive, at least to as great an extent as the textile, apparel, and footwear industries. Yet, while the

latter products are statutorily excluded from the GSP, the other leather-related products are not. Renewal of the GSP should take into consideration the worsening conditions in the leather-related industries, and should statutorily exclude luggage, personal leather goods and the other leather-related products from the GSP, as Congress correctly saw fit to do in the Caribbean Basin legislation.

The personal leather goods industry is experiencing a major policy and legal problem with the GSP with respect to one of the few of its products currently on the GSP list. Notwithstanding the statutory exclusion of textile and apparel articles from the GSP, man-made fiber flat goods, a textile product, are currently on the duty-free GSP list. Unable to persuade the administration to take action to rectify this inconsistency between the trade statutes and the GSP program, we have had to challenge the actions of the Executive Branch in the courts. This situation illustrates that, even where Congress thought it had spoken clearly in the law, the executive branch has interpreted the statute as it sees fit. Yet Congress is being asked by the administration to give it even more discretionary authority if it extends GSP.

STATEMENT

My name is Seymour Friedman. My appearance before the subcommittee today is in my dual capacity as president of the Luggage & Leather Goods Manufacturers of America, Inc., the trade association representing domestic producers of luggage and personal leather goods, and as president of Pegasus Luggage Co. located in Miami, Fla. I am appearing as part of the Leather Products Coalition, members of which are seeking an exclusion of their products from the Generalized System of Preferences. Furthermore, I would like to comment on what I consider to be other controversial aspects of the proposed renewal of the GSP.

The luggage and personal leather goods industries, along with other industries in the leather products sector, are labor-intensive and import-sensitive, at least to as great an extent as the textile, apparel, and footwear industries. While these latter products were granted a statutory exclusion from the GSP when the legislation was enacted in 1974, the other leather-related industries were not, and they remained eligible for GSP. Yet because of the extreme import-sensitivity of our products, along with the vigilant efforts of the individual industries within this sector, very few leather-related products are currently on the GSP list. This is as it should be, but we live in constant fear that these goods will be added to the list based on the discretionary authority in the hands of the executive branch. Our industries have devoted a substantial amount of time and effort to ensure that our products do not get added to the GSP list. This effort has required a number of visits to Washington by industry executives, time which could perhaps be better spent attending to other company business.

We feel very strongly that the renewal of GSP should take into consideration the worsening conditions in the leather-related industries and should therefore statutorily exclude luggage, personal leather goods and the other leather-related products from the GSP as Congress correctly saw fit to do in the Caribbean Basin Initiative.

Rapidly increasing U.S. Imports of luggage and personal leather goods have been the cause of declining domestic production, market share and jobs in these industries.

In the luggage industry, imports have relentlessly increased while domestic shipments have been on a decidedly downward trend. Imports increased fivefold between 1975 and 1980, from \$49 million to \$243 million. Real growth in the domestic market during this period was only moderate, at best. Imports continued to increase further to \$335 million in 1982, representing a 38-percent increase in imports between 1980 and 1982. In the first 5 months of 1983, luggage imports grew an additional 17 percent over the same period of 1982. U.S. shipments of luggage fell by 25 percent in real terms between 1980 and 1982. The industry estimates, conservatively, that import penetration in the U.S. luggage market is currently in excess of 40 percent in terms of value. In units, we believe import penetration could be as high as 50 percent or more.

The situation with respect to personal leather goods is similar. Domestic shipments of personal leather goods fell by 14 percent in real terms between 1980 and 1982. Over the same period, imports rose by 22 percent, and increased an additional 21 percent in the first five months of 1983. According to our estimate, more than 30 percent of the U.S. market has been captured by imports. As with the luggage industry, imports have been increasing at a time when the market has not been growing and, thus, imports are at the expense of domestic production. While import penetration in the personal leather goods industry has not yet reached the level

achieved in the luggage industry, the import market share is already substantial and rising rapidly.

These two industries have been fighting an uphill battle for self-preservation. We have been largely successful thus far in ensuring that our products are not added to the GSP list because of their import-sensitivity.

Much has been written about the recent upsurge in imports of textiles and apparel. Action has been taken by the Executive Branch to put a halt to these increases. Yet our industry which also produces textile products in no way has benefitted from such actions. Although textile luggage and textile flat goods are included under the Multifiber Arrangement, no action has been taken by the Executive Branch to stem the flow of such imports. In the first five months of 1983, textile luggage imports increased 71 percent and are still rising.

In 1981, the luggage industry sought, and received, a technical assistance grant of just under \$250,000 from the U.S. Government designed to aid import-impacted industries. Under the grant, we have embarked on an extensive and ambitious campaign to improve our productivity, produce an even higher quality product, offer a better value to the consumer, and, in general, become more competitive. The personal leather goods industry has a similar proposal pending before the Commerce Department.

With imports continually rising and no end in sight, and in light of the current state of the leather-related industries it should be clear why we are seeking an exclusion for our products from the GSP. Quite simply, these import-sensitive industries cannot afford any further loss of market share.

I would like to relate to the members of the Subcommittee a policy and legal problem that the personal leather goods industry is having with the GSP program. The issue involves one of the few luggage or personal leather goods items currently on the GSP list, man-made fiber flat goods, i.e., wallets, change purses, etc. Man-made fiber flat goods were designated as a GSP-eligible article effective March 31, 1981. In recognition of the fact that these flat goods are properly covered by the Multifiber Arrangement, the Department of Commerce officially accorded this item a correlation number for inclusion under the MFA category system effective January 1, 1982. The failure to accord this TSUS item a correlation number in the first place was, we believe, an oversight.

As you know, the statute specifically excludes from GSP treatment, under Section 503(c)(1)(A), "textile and apparel articles which are subject to textile agreements." Clearly, man-made fiber flat goods are such articles "subject to textile agreements" and therefore should be ineligible for the GSP. In our view, there thus exists a serious inconsistency between the trade statutes and the GSP program. Unfortunately, despite major effort over the last two years by firms and workers in the personal leather goods industry to remove man-made fiber flat goods from the GSP list based on the statutory exemption, this item remains on the Preference List today.

With our efforts to persuade the Administration being unsuccessful to date, the LLGMA and the International Leather Goods, Plastics and Novelty Workers' Union had no recourse but to challenge the actions of the Executive Branch in the courts. Therefore, a complaint was filed with the U.S. Court of International Trade in June which charges the President and Ambassador Brock, among others, with illegally designating man-made fiber flat goods as eligible articles under the GSP, notwithstanding the statutory exclusion of textile and apparel products from the GSP.

It is unfortunate that an industry such as ours has had to resort to the courts with its accompanying legal costs to correct a terrible injustice. What this situation illustrates is that, even where Congress thought it had spoken clearly in the law, the Executive Branch has interpreted the statute as it sees fit. Yet Congress is being asked by the Administration to give it even more discretionary authority if it extends GSP. The only solution for an industry such as ours is to be excluded by name from duty-free treatment.

Chairman GIBBONS. Thank you.

Mr. NEHMER. Mr. Chairman, Mr. Dean Schleicher, who is president of the Work Glove Manufacturers Association, of Grayslake, Ill., and an official with Keller Glove of Plumsteadville, Pa.

Chairman GIBBONS. Thank you.

STATEMENT OF DEAN K. SCHLEICHER, LEATHER PRODUCTS COALITION, PRESIDENT, WORK GLOVE MANUFACTURERS ASSOCIATION, AND SECRETARY-TREASURER, KELLER GLOVE MANUFACTURING CO.

Mr. SCHLEICHER. Thank you, Mr. Chairman.

I, too, will attempt to make this as brief as possible. I know you have heard some of the things that we are saying here before.

Chairman GIBBONS. I am very familiar with work gloves. I use them myself, and I know the issues.

Mr. SCHLEICHER. Very good. I hope they are domestic.

Chairman GIBBONS. They are.

Mr. SCHLEICHER. If you will bear with me, Mr. Chairman, I will just go down through some of my notes and skip over some of the other things, which you have to read.

As you are aware, the work glove industry is a highly labor-intensive industry. This is what makes the GSP of great importance to our particular industry. Firms in our industry are typically small- to medium-sized establishments, and employ a large percentage of minorities and women. The U.S. work glove industry has been characterized by stagnant or declining domestic shipments coincident with increasing imports and import penetration.

Based upon an industrywide employment survey from 1979 through 1982, employment in the work glove industry dropped by 28 percent. The dramatic falloff in production combined with a corresponding increase in imports over the last few years has clearly meant the loss of many jobs.

Last year, the executive branch considered a petition from the Government of Thailand—which, incidentally, did not meet the criteria for completeness specified in the regulations in the GSP program—to add certain rubber and plastic work gloves to the GSP list, even though import penetration for this glove category was an estimated 20 percent already, and an estimated 40 to 45 percent for the industry as a whole.

Not only would acceptance of Thailand's petition have conferred duty-free status on Thailand's exports of these gloves to the United States, but also on the same gloves imported from all GSP beneficiary countries, including Hong Kong, Taiwan, and Korea. The latter countries already dominate the U.S. work glove market, and ironically, would have been the major beneficiaries if Thailand's petition had been accepted.

Fortunately, in the case just cited, we were able to persuade the executive branch not to add these gloves to the preference list, but it took an enormous amount of time, expense, and effort to achieve this goal. In an industry such as our own, which is primarily made up of small businesses, management is generally thin at the top. For a company executive to come to Washington to present his case means time away from the day to day operations of the firm, time such executives can ill afford.

Our obvious concern is that our products be statutorily exempted for some of the reasons cited, but we in the work glove industry are also very concerned that, under the administration's program, the advanced developing countries will continue to be eligible for GSP.

At the very least, Taiwan, Korea, Hong Kong, Mexico, and Brazil should be fully graduated from the program if it is to have any

credibility at all. These countries have demonstrated time and time again their competitiveness in our markets. They do not need the GSP to compete.

Of additional and major concern to us is the new focus and priority the administration apparently intends to give the GSP program. In their latest proposal, it appears to have become a rather curious hybrid. It was originally meant to be a development program for the less developed countries which depended upon preferential trading arrangements. If we believe the administration, however, it will not only achieve the goals for which it was originally intended, but also provide the United States with a potent negotiating tool to sell U.S. exports abroad.

This strikes us as a rather back door and inappropriate approach to negotiate market access for U.S. products abroad, and we believe that the Congress should think twice about turning the GSP program into an export development program. Also at issue here is our concern that the executive branch in its zeal to open markets abroad will begin at the request of the advanced developing countries to offer up as GSP eligible those import-sensitive products such as ours which, after all, are the ones that the advanced developing countries already export to us in growing quantities.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF DEAN K. SCHLEICHER, SECRETARY-TREASURER, KELLER GLOVE MANUFACTURING CO., PLUMSTEADVILLE, PA., AND PRESIDENT, WORK GLOVE MANUFACTURERS ASSOCIATION, GRAYSLAKE, ILL.

SUMMARY

I am here today on behalf of the domestic work glove industry to request a statutory exemption of leather-related work gloves from legislation to renew the Generalized System of Preferences. These work gloves are easily as import-sensitive as textile work gloves which, because they are a textile product, are already statutorily excluded from GSP-eligibility.

Only last year, the Executive Branch considered a petition from Thailand to add certain rubber and plastic work gloves to the GSP list, even though import penetration for this particular glove category was an estimated 20 percent, and 40-45 percent for the industry as a whole.

Our products should not be considered for GSP eligibility given our vulnerability to imports. We see the only solution as one which leaves no room for discretion and denies GSP eligibility to our products by name in the legislation.

We also believe the advanced developing countries should be fully graduated from the GSP program. They do not need GSP to compete. Furthermore, the Administration's GSP renewal program strikes us as a back door approach to negotiate market access for U.S. exports abroad; if the Administration wants negotiating authority, it should be forthright in its approach and ask Congress for it outright.

STATEMENT

Mr. Chairman and members of the Subcommittee, I want to thank you for the opportunity that you have provided to me and my fellow panel members to appear before you today to testify on the proposed renewal of the Generalized System of Preferences (GSP). I appear here today representing my own firm, Keller Glove Manufacturing Company, as well as the Work Glove Manufacturers Association, of which I am President.

The production of work gloves is a highly labor intensive process, which makes the industry very vulnerable to import competition from low-wage foreign countries—those same countries which are beneficiary developing countries under the GSP.

Firms in our industry are typically small- to medium-sized establishments and are located throughout the United States, particularly in the southern, northeastern,

and north central regions of the country. Minorities and women comprise a major portion of the work force. The U.S. work glove industry has been characterized by stagnant or declining domestic shipments coincident with increasing imports and import penetration. Based on an industry-wide employment survey, from 1979 through 1982, employment in the work glove industry dropped by 28 percent. The dramatic fall-off in production combined with the corresponding increase in imports over the last few years has clearly meant the loss of many jobs.

Many of our industry's products are already (and under the Administration's plan for a renewed GSP program, will continue to be) statutorily excluded from GSP eligibility because they are made of textile materials. However, many domestic work glove manufacturers also produce gloves made of leather, plastic, rubber or coated fabrics, none of which is automatically excluded from GSP, even though work gloves made of non-textile materials are similarly import sensitive. Indeed some of these so-called non-textile gloves include fabric as liners or as bonding materials for vinyl and other plastics. Our companies are major customers of the textile industry. Because these other work gloves are import-sensitive, they have for the most part remained off the GSP eligibility list. However, the case I am about to cite is a classic example of why these non-textile work gloves along with other leather-related products should be excluded by statute from GSP eligibility.

Last year, the Executive Branch considered a petition from the Government of Thailand (which, incidentally, did not meet the criteria for completeness specified in the regulations of the GSP program) to add certain rubber and plastic work gloves to the GSP list, even though import penetration for this glove category was an estimated 20 percent already, and an estimated 40 to 45 percent for the industry as a whole.

Not only would acceptance of Thailand's petition have conferred duty-free status on Thailand's exports of these gloves to the United States, but also on the same gloves imported from all GSP-beneficiary countries, including Hong Kong, Taiwan, and Korea. The latter countries already dominate the U.S. work glove market and ironically would have been the major beneficiaries if Thailand's petition had been accepted. Moreover, relative to the more import-battered segments of the work glove industry, the rubber and plastic gloves which were the subject of Thailand's petition, have shown some ability to compete with imports, thereby bolstering the industry as a whole. According GSP eligibility to this one item, however, would have virtually guaranteed intensified foreign production in this category, weakening the competitive position of this relatively stronger industry segment and jeopardizing still further the health of the industry as a whole.

Fortunately, in the case just cited, we were able to persuade the executive branch not to add these gloves to the preference list, but it took an enormous amount of time, expense, and effort to achieve this goal. In an industry such as our own which is primarily made up of small businesses, management is generally thin at the top. For a company executive to come to Washington to present his case means time away from the day-to-day operations of the firm—time such executives can ill-afford.

We find it difficult to comprehend the fact that any of our products would be considered for GSP eligibility given our vulnerability to imports and their substantial penetration into our markets. Yet, the sad fact is that it happens to us and it happens to the other leather-related industries, despite these industries having met all the criteria which indicate that they are clearly import-sensitive. We see the only solution as one which leaves no room for discretion and denies GSP eligibility to our industry's products by name in the legislation.

Mr. Nehmer, in his opening statement, expressed the concerns of the leather-related products sector about the administration's GSP renewal proposal. Our obvious concern is that our products be statutorily exempted for the reasons I have just cited, but we in the work glove industry are also very concerned that the advanced developing countries, under the administration's program, will continue to be eligible for GSP. At the very least, Taiwan, Korea, Hong Kong, Mexico, and Brazil should be fully graduated from the program if it is to have any credibility at all. These countries have demonstrated time and time again their competitiveness in our markets; they do not need the GSP to compete.

Of additional and major concern to us is the new focus and priority the administration apparently intends to give the GSP program. In their latest proposal, it appears to have become a rather curious hybrid. It was originally meant to be a development program for the less developed countries which depended upon preferential trading arrangements. If we believe the administration, however, it will not only achieve the goals for which it was originally intended, but also provide the United States with a potent negotiating tool to sell U.S. exports abroad. This strikes us as a

rather back door and inappropriate approach to negotiate market access for U.S. products abroad, and we believe that the Congress should think twice about turning the GSP program into an export development program. Also at issue here is our concern that the executive branch, in its zeal to open markets abroad, will begin (at the request of the advanced developing countries) to offer-up as GSP-eligible those import-sensitive products, such as ours, which, after all, are the ones which the advanced developing countries already export to us in growing quantities.

This is of real and serious concern to us. If the Administration wants negotiating authority, it should be forthright in its approach and ask Congress for it outright, not come through the back door of the GSP program. This provision in the renewal legislation is a wolf in sheep's clothing and the Congress should reject it.

I appreciate the time you have given me to appear before you today and I am available to answer any questions.

Chairman GIBBONS. Thank you.

Mr. NEHMER. And finally, Mr. Chairman, Mr. Ralph Cennamo, who is general president of the International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO.

STATEMENT OF RALPH CENNAMO, LEATHER PRODUCTS COALITION, GENERAL PRESIDENT, INTERNATIONAL LEATHER GOODS, PLASTICS & NOVELTY WORKERS' UNION, AFL-CIO

Mr. CENNAMO. My name is Ralph Cennamo, and I am the general president of the International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO. Our union represents a substantial number of workers in the domestic handbag, luggage, and personal leather goods industries.

My appearance here today is to seek a statutory exclusion of leather-related products from the Generalized System of Preferences. All three of the industries in which our members work, handbags, luggage, and leather goods, are labor-intensive, therefore particularly sensitive to import competition from low wage foreign countries. Whether handbags, luggage or personal leather goods all have been increasingly threatened by growing imports which have caused lost, domestic production and jobs.

A large proportion of our membership is made up of minorities, primarily blacks and Hispanics, and a large portion is made up of women. Many of our members are low skilled, and once they lose their jobs, reemployment prospects even in good times are exceedingly dim. Incidentally, while imports from low wage countries are the source of the majority of competition in these industries, the members of the subcommittee should be aware that the average hourly wage in the U.S. industries is only about \$5.50 per hour compared to \$8.75 per hour for the U.S. average manufacturing wage.

Imports have taken their toll on these labor-intensive industries. The import statistics are startling. In the handbag industry alone, imports have captured almost 85 percent of the U.S. market. In the luggage industry, imports have an estimated 40 percent, and in the personal leather goods imports have 30 percent of our market. Thousands upon thousands of jobs have been lost in these industries due to imports. During 1982 alone, the unemployment rate in the leather products sector rose some 13.1 to 17.4 percent.

There is a never-ceasing stream of petitions from developing countries to add either this handbag or that piece of luggage or a certain type of wallet to the GSP eligibility list. There is little doubt as to the import sensitivity of these industries, yet each year

the U.S. Government receives numerous petitions from foreign governments requesting that handbags, luggage, and personal leather goods be added to the preference list.

The fact that most of these petitions are not accepted for review by USTR and those accepted for review are turned down is due only to the vigilant efforts of these industries. It is unfortunate that all of this work and all of this time are spent on the issue of import sensitivity, an issue we had thought long since settled.

Our members who have lost their jobs know Korea, Hong Kong, Taiwan, or other developing countries do not need the benefits of the GSP program to compete in our luggage, handbag, and personal leather goods markets. From our perspective, the program should not be renewed at all, but if it is, we strongly believe that our industries, which have suffered enough under the burden of heavy imports, should be added to textiles, footwear, and watches in the statute as products ineligible for the GSP due to extreme import sensitivity.

Congress exempted these products from the duty-free treatment in the Caribbean Basin legislation for good reason. The same would apply in the case of GSP legislation.

I want to add, too, that the administration's proposal has many other failings, not the least of which is its failure to graduate countries which no longer need GSP such as Hong Kong, Taiwan, Korea, Mexico, and Brazil. With the majority of benefits under the GSP program accruing to these countries, very little is left for the truly needy countries for which the program was designed.

Finally, I want to state to the committee that I hope that it exercises great caution in granting the wide discretionary authority which the administration's bill seeks for the President to barter tariff preferences and to set or waive the competitive need limitation virtually at will for market access abroad. There is no congressional oversight for the wide ranging discretionary authority which would under the administration's bill last 10 years.

Thank you for hearing my testimony on renewal of the GSP program. I will be available to answer any questions.

[The prepared statements of Mr. Cennamo and Mr. Levy follow:]

STATEMENT OF RALPH CENNAME, GENERAL PRESIDENT, INTERNATIONAL LEATHER GOODS, PLASTICS & NOVELTY WORKERS' UNION, AFL-CIO

SUMMARY

Our Union represents a substantial number of workers in the domestic handbag, luggage, and personal leather goods industries, each of which is a labor-intensive industry, and, therefore, particularly vulnerable to import competition from low-wage foreign countries. Our members who have lost their jobs know that Korea, Hong Kong, and Taiwan, or the other developing countries do not need the benefits of the GSP program to compete in our handbag, luggage and personal leather goods markets.

From our perspective, the GSP program should not be renewed at all, but if it is, we strongly believe that our industries, which have suffered enough under the burden of heavy imports, should be added to textiles, footwear and watches in the statute as products ineligible for the GSP due to extreme import sensitivity. Congress exempted these products from duty-free treatment in the Caribbean Basin legislative for good reasons, the same which apply in the case of GSP legislation.

Great caution should be exercised in granting the wide discretionary authority which the Administration's bill seeks for the President to barter tariff preferences and set or waive the competitive need limitation, virtually at will, for market access

abroad. There is no Congressional oversight for the wide-ranging discretionary authority which would, under the Administration's bill, last 10 years.

STATEMENT

My name is Ralph Cennamo and I am General President of the International Leather Goods, Plastics, and Novelty Workers' Union, AFL-CIO. Our Union represents a substantial number of workers in the domestic handbag, luggage and personal leather goods industries. My appearance here today is to seek a statutory exclusion of leather-related products from the Generalized System of Preferences.

All three of the industries in which our member work—handbags, luggage and personal leather goods—are labor-intensive and, therefore, particularly vulnerable to import competition from low-wage foreign countries. Whether handbags, luggage, or personal leather goods, all have been increasingly threatened by growing imports which have caused lost domestic production and jobs. A large proportion of our membership is made up of minorities, primarily blacks and Hispanics, and a similarly large portion is made up of women. Many of our members are low-skilled, thus once they lose their jobs, reemployment prospects even in good times are exceedingly dim. Incidentally, while imports from low-wage countries are the source of the majority of competition in these industries, the members of the Subcommittee should be aware that the average hourly wage in our U.S. industries is only about \$5.50 per hour compared to \$8.75 for the U.S. average manufacturing wage.

Imports have taken their toll on these labor-intensive industries. The import statistics are startling: in the handbag industry alone, imports have captured almost 85 percent of the U.S. market; in the luggage industry imports have an estimated 40 percent; and for personal leather goods, imports have 30 percent of our market. Thousands upon thousands of jobs have been lost in these industries due to imports. During 1982 alone, the unemployment rate in the leather products sector rose from 13.1 percent to 17.4 percent.

In every conceivable sense, handbags, luggage and personal leather goods are import-sensitive, a concept I might add which has never been adequately defined in the context of the Generalized System of Preferences, and which, as a result, places an inordinate amount of discretion in the hands of the Executive Branch. I personally have spent countless hours in meetings and in travel from New York to Washington on just this question.

There is a never-ceasing stream of petitions from developing countries to add either this handbag or that piece of luggage, or a certain type of wallet to the GSP eligibility list. There is little doubt as to the import sensitivity of these industries, yet each year the U.S. Government receives numerous petitions from foreign governments requesting that handbags, luggage and personal leather goods be added to the Preference list. Let me illustrate my point. This year, the USTR compiled a 16-page list of petitions received to modify the GSP list. Of these 16 pages, almost 1½ were devoted to luggage, handbags and personal leather goods.

I would venture to say that we have the dubious distinction of being the subject of more foreign government requests to add products to the GSP list than any other commodity. The fact that most of these petitions are not accepted for review by USTR, and those accepted for review are turned down, is due only to the vigilant efforts of these industries. It is unfortunate that all this work and all this time are spent on the issue of import sensitivity, an issue we had thought long-since settled.

Our members who have lost their jobs (and if this Administration has its way, even what little remains of their trade adjustment assistance benefits) know that Korea, Hong Kong, and Taiwan, or the other developing countries do not need the benefits of the GSP program to compete in our luggage, handbag and personal leather goods markets. From our perspective, the program should not be renewed at all, but if it is, we strongly believe that our industries, which have suffered enough under the burden of heavy imports, should be added to textiles, footwear and watches in the statute as products ineligible for the GSP due to extreme import sensitivity. Congress exempted these products from duty-free treatment in the Caribbean Basin legislation for good reasons, the same which apply in the case of GSP legislation.

I want to add, too, that the Administration's proposal has many other failings, not the least of which is its failure to graduate countries which no longer need GSP such as Hong Kong, Taiwan, Korea, Mexico and Brazil. With the majority of benefits under the GSP program accruing to these countries, very little is left for the truly needy countries for which the program was designed.

Finally, I want to state to the Committee that I hope that it exercises great caution in granting the wide discretionary authority which the Administration's bill

seeks for the President to barter tariff preferences and set or waive the competitive need limitation, virtually at will, for market access abroad. There is no Congressional oversight for the wide-ranging discretionary authority which would, under the Administration's bill, last 10 years.

Thank you for hearing my testimony on renewal of the GSP program. I will be available to answer any questions from the Committee.

STATEMENT OF EDWARD LEVY, LEATHER PRODUCTS COALITION, EXECUTIVE DIRECTOR,
NATIONAL HANDBAG ASSOCIATION, NEW YORK, N.Y.

SUMMARY

The National Handbag Association feels strongly that, no matter what else may be decided with respect to GSP renewal, it is critical that handbags and other leather-related products be excluded by law from GSP eligibility if the program is renewed.

Title V of the 1974 Trade Act specifically excludes footwear, textile products and watches from GSP eligibility because of import sensitivity. But what could be more sensitive than handbags, with an import penetration rate of almost 85 percent? Over the last fifteen years, the handbag industry has experienced a loss of over one-fourth of all manufacturing plants, despite modest growth in U.S. market demand for handbags. Since 1975 alone we have seen imports virtually triple.

The bulk of handbag imports comes from Taiwan, Hong Kong and Korea—the three developing countries which together accounted for fully one-half of total GSP imports in 1982. Together they comprise 85 percent of handbag imports. It is clear to us that these countries do not need preferential treatment to compete in our market. This preferential treatment should be ended.

STATEMENT

I am Edward Levy, Executive Director of the National Handbag Association, the trade association for the domestic handbag industry. I requested time to appear before the Subcommittee on Trade as part of this panel because, no matter what else may be decided with respect to GSP renewal, it is critical that handbags and other leather-related products be excluded by law from GSP eligibility if the program is renewed.

Title V of the 1974 Trade Act specifically excludes footwear, textile products and watches from GSP eligibility because of import sensitivity. But what could be more sensitive than handbags, with an import penetration rate of almost 85 percent? Yet a few types of handbags are eligible for GSP treatment and such handbags compete directly with domestically produced handbags. I do not know of any other industry with a penetration level so high, or one that has demonstrated more import sensitivity. Over the last fifteen years, the handbag industry has experienced a loss of over one-fourth of all manufacturing plants, despite modest growth in U.S. market demand for handbags. Since 1975 alone we have seen imports virtually triple, increasing from 58 million units valued at \$125 million in 1975 to 164 million units valued at \$410 million in 1982. Imports are overwhelmingly dominating the U.S. market for handbags; it is difficult to identify another U.S. industry which controls less than 20 percent of its own market.

I should point out that we are a small industry with very limited funds to monitor trade activities or file trade complaints. It is virtually impossible for the industry to cover everything that is going on in the trade area, even though imports are the single biggest threat to our survival. We have worked most closely with the International Leather Goods, Plastics and Novelty Workers' Union in this regard to our mutual benefit. However, to require us to prove our import sensitivity over and over again in the context of the GSP program is both unfair and unnecessarily burdensome. Yet we have had to do this countless times.

This year alone the USTR received nine separate requests to add a variety of handbags to the Preference list. In some instances, the item under petition, by itself, might not be as import-sensitive as some other industry products, but if it were added to the list of GSP-eligible items, it would just be a matter of time before foreign production would shift to this item and intensify because of the preferential duty rate accorded to it, resulting in the further destruction of the domestic industry.

Such actions have a hammering effect on an industry, a negative impact which can only be offset by a statutory exemption of our industry's products.

The bulk of handbag imports comes from Taiwan, Hong Kong and Korea—the three developing countries which together accounted for fully one-half of total GSP imports in 1982. Together they comprise 85 percent of handbag imports. It is clear to us that these countries do not need preferential treatment to compete in our market. This preferential treatment should be ended.

This committee recognized the serious plight and serious import sensitivity of our industries when it exempted our products from the duty-free provisions of the CBI. The principle is clearly the same here and we urge you in the strongest terms possible to exempt leather-related products if Congress should see fit to extend the Generalized System of Preferences program.

Chairman GIBBONS. Thank you.

Mr. NEHMER. Thank you, Mr. Chairman. That concludes our presentation, and if you have any questions, we would be glad to try to answer them.

Chairman GIBBONS. Thank you.

We will take the next witness, which is the Electronic Industries Association, Mr. Mullen and Mr. Spurney.

STATEMENT OF ROBERT L. MULLEN, CHAIRMAN, INTERNATIONAL BUSINESS COUNCIL, ELECTRONIC INDUSTRIES ASSOCIATION, ACCOMPANIED BY ALAN B. SPURNEY, STAFF DIRECTOR, INTERNATIONAL BUSINESS COUNCIL

Mr. MULLEN. Mr. Chairman, I am Robert L. Mullen, of the Singer Co., presently the chairman of the International Business Council for the Electronic Industries Association. Accompanying me is Mr. Alan B. Spurney, staff director for our council.

I will briefly summarize the principal points of our full statement, which you have before you, and ask that it be included in the hearing record.

Chairman GIBBONS. All statements will be in the record. Go right ahead.

Mr. MULLEN. We have three recommendations for changing the GSP law. Our first recommendation is that beneficiary status should be based, in some part at least, upon a developing country's recognition of the spirit of GATT. In our view, beneficiary status should not be required as a preference to be granted solely because the candidate country is developing, but it should also represent a concession to be made after the country has demonstrated its respect for the principles of GATT and its equity in trade and investment practices with the United States.

Please observe that the legislative proposal transmitted on July 22 to the Trade Subcommittee's chairman, yourself, by the USTR approaches this in a quite different way. It permits a developing country to obtain and enjoy beneficiary status in almost the same manner as always. When the country's exportation of an article reaches the competitive limit, its trade conduct would then be evaluated in order to decide whether the competitive limit might be waived in favor of a higher limit.

Our second recommendation is based upon recognition that the present list of beneficiaries includes 11 countries which have so diversified and expanded their economies over the past 9 years that they are now advanced developing countries, sometimes called newly industrialized countries.

We recommend that in order to qualify for beneficiary status in the first place, an advanced developing country should demonstrate

that it has shown far more respect for the principles of GATT and has exercised far more equity in its trade and investment practices with the United States than ordinary developing countries.

Again, you will observe that the legislative proposal transmitted by the USTR on July 22 accomplishes this only to the extent of asking the President to have due regard for developing countries' competitiveness with respect to articles designated as eligible articles. The proposal does not call for evaluation of the relative economic characteristics such as the GNP per capita of beneficiary developing countries.

Our third recommendation relates to the content of articles imported from GSP countries. Present law requires that at least 35 percent of the eligible article's value must have originated in the GSP country. In order to further the development objective, while recognizing the U.S. contribution to that development, we suggest that whatever percentage of required content be established in the renewing legislation, the value of U.S.-supplied components and materials be included as if it had originated in the GSP country, and that meaningful operations must be performed in the beneficiary country.

Again, we observe that the July 22 legislative proposal does not accomplish this at all. Its enactment would still allow duty-free entry into the United States of an article 65 percent of whose value originated in an industrialized nation other than the United States.

The Congress has just passed the Caribbean Basin Initiative. Please observe that the CBI contains a provision encouraging affirmatively the use of American components and materials in products being manufactured in the Caribbean countries.

The Electronic Industries Association's rationale for making these three recommendations lies in the international trade posture of the U.S. electronic industries. Last year, imports of electronic products exceeded \$1 billion from each of the eight countries which I will name in a moment. Of those eight, six are GSP beneficiary countries. In descending order of magnitude of electronic imports from them, the eight countries are Japan, Taiwan, Mexico, Canada, Singapore, Malaysia, Korea, and Hong Kong. All are GSP beneficiaries except Canada and Japan.

Exhibits A through G in our statement serve to document the fact that developing countries are not necessarily simple agrarian economies. Many of them have industrialized considerably. A number of them have created capacities to manufacture a wide range of electronic articles which are commonly regarded as high technology products, and which these GSP countries are now exporting in important volumes to the United States.

While supporting GATT as the fundamental framework for the development of international trade, the U.S. Government must also encourage every member of the free world trading community to respect and abide by the GATT rules.

The GSP countries have been noticeably reluctant to sign the multilateral trade agreements. Of those, there are five codes of conduct indicating a country's willingness to engage in two-way trade. Our exhibit H lists an assortment of 17 countries showing which of them have signed which of the five codes. Their performance has been extremely poor.

EIA does not feel that advanced developing countries need necessarily be graduated out of the GSP system entirely. We do believe, however, that they should fulfill more of the attributes of good trading partners, and refrain from enacting burdensome performance requirements or other severe restraints on foreign investment or imports such as the denial of market access in conjunction with industrial targeting.

Our exhibit I summarizes the considerations regarding trade practice and degree of economic development which should be taken into account when weighing whether a country deserves GSP status in the first place.

Quite apart from the 17 beneficiary nations being used in our exhibits, it might be useful to note that the overall list of GSP countries presently includes one country which rather than sign the 1979 multilateral agreements resigned from GATT, five countries which impose performance requirements effectively restricting imports from the United States, 5 communist countries which cannot be said to share our dedication to the free market system, and 32 countries which are dependencies on some other sovereign nation.

Mr. Chairman, that concludes our oral testimony. Mr. Spurney and I would be pleased to answer any of the subcommittee's questions, and if we are unable to answer here, we will certainly furnish the answers. We thank you for the privilege of appearing.

[The prepared statement follows:]

STATEMENT OF ROBERT L. MULLEN, ON BEHALF OF THE ELECTRONIC INDUSTRIES
ASSOCIATION

I am Robert L. Mullen of the Singer Company, presently Chairman of the International Business Council of the Electronic Industries Association (EIA). Accompanying me is Alan B. Spurney, Staff Director of our Council.

With more than 1000 participating companies, EIA is the full-service national trade organization representing the entire spectrum of U.S. companies manufacturing electronic products. These include components, equipment, and systems; they are made for industrial, governmental, and consumer end-users.

Within EIA, our International Business Council is composed of almost 500 executives actively engaged in the export or import operations of their companies.

GSP allows the duty-free importation of "Eligible Articles" into the USA from "Beneficiary Countries." By offering a large and open market for their products, it seeks to encourage the expansion and diversification of developing economies. Its ultimate objective is to increase gainful employment, thereby raising the standard of living in beneficiary countries.

Not all developing countries are "beneficiary" countries, and not all the products of these countries are "eligible" articles. Nevertheless, during its nine years of operation, GSP has reached the point where it grants duty-free treatment on the importation into the United States of about 3,000 eligible articles—valued at \$9 billion in 1982—from about 140 beneficiary countries.

For two years, EIA has had an Association-wide position favoring the amendment of GSP. So, the substance of my testimony, today, does not arise from last month's submittals by the United States Trade Representative (USTR) to the Chairmen of the Committee on Ways and Means and of its Subcommittee on Trade. Rather, it arises from our member companies' experiences and observations during GSP's nine years of operation.

We have three recommendations for changing the GSP law. These recommendations grow out of our concern with trends in the international competition involving manufactured articles. One trend is that many developing countries have, during the past nine years, created significant capacities for manufacturing and exporting electronic products. It is our observation that, in some cases, these capacities are supported by intervention of the country's government.

Our first recommendation is that beneficiary status should be based in some part at least upon the developing country's recognition of the spirit of the General

Agreement on Tariffs and Trade (GATT). In our view, beneficiary status should not be regarded as a preference to be granted solely because a candidate country is "developing" but should also represent a concession to be made after the country has demonstrated its respect for the principles of GATT, and its equity in trade and investment practices with the United States.

Please observe that the legislative proposal transmitted on July 22 to the Trade Subcommittee's Chairman, Sam Gibbons, by USTR approaches this in a quite different way. It permits a developing country to obtain and enjoy Beneficiary status in almost the same manner as always. When the country's exportation of an article reaches the "Competitive Limit," its trade conduct would be evaluated. It would then be decided whether duty-free importation of the article from that country should terminate at the prescribed Competitive Limit—or whether the Competitive Limit should be waived in favor of a higher limit.

Our second recommendation is based upon recognition that the present list of beneficiaries includes 11 countries which have so diversified and expanded their economies over the past nine years that they are now "Advanced Developing Countries," sometimes called "Newly-Industrialized Countries."

We recommend that, in order to be designated for beneficiary status, an advanced developing country should first be able to demonstrate that it has shown far more respect for the principles of GATT, and has exercised far more equity in its trade and investment practices with the United States, than ordinary developing countries.

Please observe that the legislative proposal transmitted by USTR on July 22 accomplishes this only to the extent of asking the President to "have due regard for developing countries' competitiveness with respect to articles designated as eligible articles. . . ." The proposal does not call for evaluation of the relative economic characteristics (such as GNP-per-capita) of Beneficiary developing countries. The amendments that it proposes relate largely to the Limitation on Preferential Treatment. These, the so-called "Competitive Limits," are a maximum value per Eligible Article.

Our third recommendation relates to the content of articles imported from GSP countries. In this respect, present law requires that at least 35 percent of an eligible article's value must have originated in the GSP country. In order to further the development objective while recognizing the United States' contribution to that development, we suggest that—whatever percentage of required content be established in the renewing legislation—the value of U.S.-supplied components and materials be included as if it had originated in the GSP country, and that meaningful operations must be performed in the beneficiary country.

Please observe that the July 22 legislative proposal does not accomplish this. Its enactment would still allow duty-free entry into the United States of an article 65 percent of whose value originated in an industrialized nation other than the United States.

The Congress has just passed the Caribbean Basin Initiative ("CBI"). It is intended, we believe, to accord especially-advantageous provisions to 25 nearby developing countries. We believe that Congress, when renewing the GENERALIZED System of Preferences, will design GSP to be preferential, but still to be less advantageous than CBI.

Please observe that CBI contains a provision encouraging affirmatively the use of American components and materials in products being manufactured in Caribbean countries.

EIA's rationale for making these three recommendations lies in the international trade posture of the U.S. electronic industries today. In the 5-year period from 1978 through 1982, imports of electronic products into the USA increased from \$10 billion to \$21 billion, or by 110 percent. (Exports rose only 84 percent from \$13 billion to \$24 billion). In 1981, the electronic trade surplus was \$3.7 billion; last year, it was \$3.2 billion. Imports are climbing faster than exports. Our electronics trade surplus is winding down.

Last year, imports of electronics products exceeded \$1 billion from each of eight countries. Of these eight, six countries indicated by an asterisk in the following list are beneficiaries under GSP. In descending order of the magnitude of electronic imports from them, the eight countries are: Japan; *Taiwan; *Mexico; Canada; *Singapore; *Malaysia; *Korea, and *Hong Kong.

Exhibits A through G, attached to this statement, were extracted by the EIA Marketing Services Department from trade data supplied by the U.S. Department of Commerce. All of these Exhibits cover the same assortment of 17 developing countries; among them are the six countries asterisked, above, as leading sources of electronic imports.

These exhibits differ in that each covers a particular product group:

- A. Consumer Electronics
- B. Electron Tubes
- C. Solid State Products (Semiconductors)
- D. Passive Parts (Capacitors, Resistors, etc.)
- E. Communications Equipment
- F. Industrial Electronics (incl. computers) and
- G. Totals for the foregoing

Exhibits A-G serve to document the fact that developing countries are not necessarily simple agrarian economies. Many of them have industrialized considerably. A number of them have created capacities to manufacture a wide range of electronic articles—which are commonly regarded as high-technology products—and which these GSP countries are not exporting in important volumes to the United States.

Each exhibit has two columns. One shows the Customs Value of imports of a single group of electronic products from that country. The second column shows the portion of that value which entered duty-free under GSP.

Exhibit G is a summation of all six electronic product groups. The Customs Value imported from these 17 countries is \$8 billion—of which \$1 billion entered duty-free under GSP.

The U.S. Government must begin to adopt policies and systems that deal with the realities of international trade. Government's own forecasts predict an increase in the trade deficit from \$36 billion last year to \$75 billion this year, and the current account deficit from \$8 billion to \$45 billion.

While supporting GATT as the fundamental framework for the development of international trade, the U.S. Government must also encourage every member of the free-world trading community to respect and abide by GATT's rules.

The GSP countries have been noticeably reluctant to sign multilateral trade agreements. Of those, there are five "Codes of Conduct" indicating a country's willingness to engage in 2-way trade. Exhibit H lists the same assortment of 17 countries as you have already seen in previous exhibits but, this time, shows which of the countries have signed which of these Codes. Their performance has been poor.

EIA does not feel that advanced developing countries need necessarily be graduated out of the GSP system entirely. We do believe, however, that they should fulfill more of the attributes of good trading partners, indicate more positively their willingness to engage in fair trade, sign more of the multilateral codes of conduct, and refrain from enacting burdensome performance requirements or other severe restraints on foreign investment or imports—such as the denial of market access in conjunction with industrial targeting.

Exhibit-I (eye) summarizes the considerations regarding trade practice and degree of economic development such as have just been discussed. It covers the same 17 GSP countries as have figured in the preceding exhibits. These are considerations which, along with adherence to GATT codes, should be taken into account when weighing whether a country deserves GSP status in the first place.

Quite apart from the 17 beneficiary nations being used in our exhibits, it might be useful to note that the overall list of GSP countries presently includes: one country which, rather than sign any of the 1979 multilateral agreements, resigned from GATT; five countries which impose "performance requirements," effectively restricting imports from the U.S.; five Communist countries, which cannot be said to share our dedication to the free market system; and 32 countries which are dependencies on some other sovereign nation.

That is why EIA formulated our first recommendation, namely that:

"Beneficiary status should not be regarded as a preference to be granted countries solely because a candidate country is 'developing' but should also represent a concession to be made after the country has demonstrated its respect for the principles of GATT, and its equity in trade and investment practices with the United States."

Please observe that USTR's legislative proposal of July 22 does recognize that, within the overall list of developing countries, some are far less developed than the others. The proposal provides that the Competitive Limit may be waived on articles imported from "Least Developed Developing Countries."

Except for its asking the President to "have due regard for" developing countries' competitiveness on eligible products, the July 22 proposal does not recognize that some developing countries are obviously far more developed than the others.

Furthermore, neither the present statute nor USTR's proposal set forth systematic means for determining which of the developing countries are the "Least Developed." Nor, as a matter of fact, do they set forth systematic means for determining which of all the world's countries are "Developing" as opposed to "Developed."

EIA has evolved a systematic means. We believe there would be merit in codifying something like it. If the concept is of interest to this subcommittee, we would be glad to submit it for congressional consideration.

Mr. Chairman, that concludes EIA's statement. Mr. Spurney and I would be pleased to answer the Subcommittee's questions. If we are unable to answer them here, we will respond in writing as soon as possible.

EXHIBIT A1982 U.S. IMPORTS
CONSUMER ELECTRONIC PRODUCTS

COUNTRY NAME	TOTAL CUSTOMS VALUE	OSP VALUE
ARGENTINA	\$ 101,890	\$ 8,281
BRAZIL	63,697,584	746,659
CHILE	14,567	0
HONG KONG	545,478,481	37,327,696
INDIA	1,763,568	1,667,691
INDONESIA	6,321	6,021
ISRAEL	721,871	167,244
KOREA, REPUBLIC OF	460,547,022	33,710,487
MALAYSIA	31,849,948	5,317,864
MEXICO	450,769,236	6,589,270
PORTUGAL	383,142	54,654
REPUBLIC OF CHINA (TAIWAN)	942,586,067	19,031,507
ROMANIA	83,050	0
SINGAPORE	330,499,005	62,124,962
VENEZUELA	83,976	0
YUGOSLAVIA	23,439	20,423
SUBTOTAL	2,828,609,967	166,772,759
ALL OTHER	3,883,820,626	7,312,870
TOTAL	\$6,712,430,593	\$174,085,629

EXHIBIT B1982 U.S. IMPORTS
ELECTRON TUBE PRODUCTS

COUNTRY NAME	TOTAL CUSTOMS VALUE	GSP VALUE
ARGENTINA	\$ 696	\$ 0
BRAZIL	7,641,262	0
CHILE	2,317	0
HONG KONG	220,644	36,052
INDIA	11,125	0
INDONESIA	6,716	0
ISRAEL	479,267	16,487
KOREA, REPUBLIC OF	1,317,602	686,808
MALAYSIA	134,495	0
MEXICO	10,532,568	0
PORTUGAL	4,562	0
REPUBLIC OF CHINA (TAIWAN)	12,383,232	5,674,299
ROMANIA	17,950	0
SINGAPORE	3,031,916	0
VENEZUELA	602	0
YUGOSLAVIA	199,213	0
SUBTOTAL	35,984,189	6,413,646
ALL OTHER	210,155,853	0
TOTAL	\$246,140,042	\$6,413,646

EXHIBIT C1992 U.S. IMPORTS
SOLID STATE PRODUCTS

COUNTRY NAME	TOTAL CUSTOMS VALUE	OSP VALUE
ARGENTINA	\$ 510,722	\$ 419,229
BRAZIL	10,305,649	30,155
HONG KONG	92,041,506	2,380,989
INDIA	4,523,781	376,519
INDONESIA	70,953,246	0
ISRAEL	122,247	78,533
KOREA, REPUBLIC OF	324,512,734	1,403,983
MALAYSIA	1,068,441,776	3,318,470
MEXICO	140,463,995	1,187,913
PORTUGAL	1,430,420	24,805
REPUBLIC OF CHINA (TAIWAN)	145,793,069	17,209,634
ROMANIA	169,792	149,372
SINGAPORE	624,666,467	20,659,273
VENEZUELA	20,487	0
YUGOSLAVIA	1,378,965	1,148,060
SUBTOTAL	2,485,235,056	48,386,935
ALL OTHER	1,675,428,117	1,450,061
TOTAL	\$4,160,663,173	\$49,836,996

EXHIBIT D1982 U.S. IMPORTS
PARTS DIVISION ELECTRONIC PRODUCTS

COUNTRY NAME	TOTAL CUSTOMS VALUE	GSP VALUE
ARGENTINA	\$ 688,744	\$ 6,085
BRAZIL	13,754,567	5,573,919
CHILE	21,345	0
HONG KONG	100,622,033	45,413,289
INDIA	3,580,901	822,791
INDONESIA	147,138	11,235
ISRAEL	10,730,413	2,608,492
KOREA, REPUBLIC OF	82,601,737	12,233,898
MALAYSIA	29,427,854	5,220,854
MEXICO	673,986,660	9,762,867
PORTUGAL	804,353	4,363
REPUBLIC OF CHINA (TAIWAN)	499,756,402	92,737,351
ROMANIA	17,115	0
SINGAPORE	90,037,520	28,342,075
VENEZUELA	456,441	0
YUGOSLAVIA	1,210,827	55,998
SUBTOTAL	1,507,864,050	202,793,217
ALL OTHER	1,710,662,599	8,446,814
TOTAL	\$3,218,526,649	\$211,240,031

EXHIBIT E1982 U.S. IMPORTS
COMMUNICATIONS ELECTRONIC PRODUCTS

COUNTRY NAME	TOTAL CUSTOMS VALUE	OSP VALUE
	\$	\$
ARGENTINA	12,811	9,124
BRAZIL	523,754	442,970
CHILE	2,034	0
HONG KONG	69,438,991	56,976,385
INDIA	64,641	0
INDONESIA	17,166	0
ISRAEL	30,624,505	29,904,222
KOREA, REPUBLIC OF	90,603,519	56,150,953
MALAYSA	57,646,548	585,384
MEXICO	76,807,018	11,053
PORTUGAL	2,150	2,150
REPUBLIC OF CHINA (TAIWAN)	169,746,627	117,432,242
SINGAPORE	57,715,299	11,834,813
VENEZUELA	2,880	0
YUGOSLAVIA	232,119	3,899
SUBTOTAL	553,440,062	273,454,195
ALL OTHER	1,308,791,430	393,777
TOTAL	\$1,862,231,492	\$273,847,972

EXHIBIT F1982 U.S. IMPORTS
INDUSTRIAL ELECTRONICS DIVISION

COUNTRY NAME	TOTAL CUSTOMS VALUE	OSF VALUE
	\$ 375	\$ 0
ANGOLA		
ARGENTINA	4,307,256	766,520
BRAZIL	18,934,005	425,853
CHILE	27,735	0
HONG KONG	215,124,527	30,703,157
INDIA	6,444,113	467,053
INDONESIA	6,655	0
ISRAEL	77,783,531	73,228,835
KOREA, REPUBLIC OF	93,270,063	52,398,991
MALAYSIA	27,346,382	6,286,796
MEXICO	165,859,732	580,384
PORTUGAL	17,898,682	2,981,348
REPUBLIC OF CHINA (TAIWAN)	136,833,410	95,457,441
ROMANIA	1,017,545	879,496
SINGAPORE	113,847,930	58,605,894
VENEZUELA	248,589	0
YUGOSLAVIA	858,083	803,839
SUBTOTAL	879,808,613	313,385,607
ALL OTHER	3,660,572,077	2,359,231
TOTAL	\$4,540,380,690	\$315,744,838

EXHIBIT G

1982 U.S. IMPORTS

TOTAL ELECTRONICS	TOTAL CUSTOMS VALUE	OSP VALUE
ANGOLA	\$ 375	\$ 0
ARGENTINA	5,622,119	1,209,239
BRAZIL	114,857,021	7,219,556
CHILE	67,998	0
HONG KONG	1,022,926,202	172,837,568
INDIA	16,388,129	3,334,054
INDONESIA	71,037,242	17,256
ISRAEL	120,481,836	106,003,813
KOREA, REPUBLIC OF	1,052,852,677	156,585,120
MALAYSIA	1,214,847,003	20,830,368
MEXICO	1,518,419,209	18,131,487
PORTUGAL	20,523,309	3,067,320
REPUBLIC OF CHINA (TAIWAN)	1,907,099,607	337,542,474
ROMANIA	1,305,452	1,028,868
SINGAPORE	1,219,798,137	181,567,017
VENEZUELA	812,975	0
YUGOSLAVIA	3,902,646	1,832,219
SUBTOTAL	8,290,941,937	1,011,206,359
ALL OTHER	12,449,430,702	19,962,753
TOTAL	\$20,740,372,639	\$1,031,169,112

EIA 8-3-83

EXHIBIT H

	<u>Subsi-</u> <u>dies</u> <u>Code</u>	<u>Anti-</u> <u>dumping</u> <u>Code</u>	<u>Customs</u> <u>Valuation</u> <u>Code</u>	<u>Import</u> <u>Licensing</u> <u>Code</u>	<u>Government</u> <u>Procurement</u> <u>Code</u>
Angola	NO	NO	NO	NO	NO
Argentina	NO	NO	YES	YES	NO
Brazil	YES	YES	YES	NO	NO
Chile.	YES	NO	NO	YES	NO
Hong Kong	YES	YES	YES	YES	YES
India	YES	YES	YES	YES	NO
Indonesia	NO	NO	NO	NO	NO
Israel	NO	NO	NO	NO	NO
Korea	YES	NO	YES	NO	NO
Malaysia	NO	NO	NO	NO	NO
Mexico	NO	NO	NO	NO	NO
Portugal	NO	NO	NO	NO	NO
Romania	NO	YES	YES	YES	NO
Singapore	NO	NO	NO	NO	YES
Taiwan	NO	NO	NO	NO	NO
Venezuela	NO	NO	NO	NO	NO
Yugoslavia	YES	YES	YES	YES	NO

EXHIBIT I (eye)

A = the USA suffers bilateral trade DEFICIT with this country.
 B = is a petroleum exporting country.
 C = "Advanced Developing Country (ADC)."
 D = imposes "Performance Requirements."
 E = "non-market" economy (Communist nation).
 F = exports to this country have been restricted by
 U.S. foreign policy controls.
 G = dependency country.

Angola				E	
Argentina					F
Brazil	A		C D		
Chile					F
Hong Kong	A		C		G
India,			C		
Indonesia		B			
Israel			C		
Korea	A		C D		
Malaysia	A				
Mexico		B	C D		
Portugal			C D		
Romania				E	
Singapore	A		C D		
Taiwan	A		C		
Venezuela	A	B	C		
Yugoslavia				E	

Chairman GIBBONS. Mr. Mullen, I think you have delivered very intelligent testimony, and I have gotten a lot out of it. I wonder how we would make some of these distinctions, but I think those are far better ways than product items. I have been discussing with staff how we could proceed in that thrust. There are many other things that have been brought up in this testimony this morning that I hope we can incorporate in the bill.

We are going to have to have more extensive hearings because I recognize that this is an important subject. Although GSP is small in the entire American economy, it is important to those who are impacted by it. And we want to do a good workmanlike job on it.

So that will conclude our hearings for today. At a later date I will announce other days of hearings for the remaining witnesses, and perhaps we will have more questions at that time. We appreciate your coming and helping us today with it.

Mr. MULLEN. Thank you very much, Mr. Chairman.

Chairman GIBBONS. The subcommittee is adjourned.

[Whereupon, at 1:35 p.m., the hearing was adjourned, to reconvene at the call of the Chair.]

[Submissions for the record follow:]

SIEGEL, MANDELL & DAVIDSON, P.C.,
New York, N.Y., August 4, 1983.

Re Legislation in renewal of the generalized system of preferences program.

COMMITTEE ON WAYS AND MEANS,
House of Representatives, Longworth House Office Building, Washington, D.C.
(Attention of John J. Salmon, Esq., Chief Counsel).

DEAR MR. SALMON: In connection with the public hearings currently being conducted by the Subcommittee on Trade regarding the renewal of GSP, we are pleased to enclose written submissions on behalf of Ameribrom, Inc., a United States importer of bromine compounds currently eligible for duty-free entry under the GSP, and Dead Sea Bromine Co., Ltd., the Israeli producer of such compounds. These submissions were initially filed on April of this year before the Trade Policy Staff Committee, Office of the United States Trade Representative, in connection with its public hearings into the same matter.

These statements address the application of the policy of "Graduation" and embody a proposal for legislation which would ensure the continued eligibility of products from beneficiary developing countries where "graduation" could not reasonably be expected to favorably impact upon the development level of the more immature developing countries.

The submissions also urge the continuation of GSP benefits to Israeli products. Since the inception of the GSP program, Israel has continuously provided open access to goods the growth, product or manufacture of the United States and, to the present, the United States enjoys a favorable balance of trade with Israel. In 1982 for example, the total value of U.S. exports to Israel (exclusive of military equipment) exceeded the value of Israeli imports into the United States by more than one-third.

We trust that the Trade Subcommittee will give the positions and proposal embodied in these submissions careful consideration. Should any additional information be required, we would be pleased to provide assistance.

Very truly yours,

EDWARD B. ACKERMAN.

Enclosure.

[Public Version]

SIEGEL MANDELL & DAVIDSON, P.C.
New York, N.Y., April 11, 1983.

Re Ameribrom, Inc.: Renewal of GSP legislation.

EXECUTIVE DIRECTOR,
Generalized System of Preferences, Office of the U.S. Trade Representative, room 316,
Washington, D.C.

DEAR SIR: Pursuant to notice published in the Federal Register of Wednesday, February 9, 1983 (48 Fed. Reg. 6062), submission is hereby made, on behalf of Ameribrom, Inc., of comments in connection with proposals by the Office of the United States Trade Representative (hereinafter "USTR") regarding renewal of, and revision to, the GSP program.

BACKGROUND

Ameribrom, Inc., a corporation maintaining its principal place of business in New York City, is the exclusive importer into the United States of various bromine compounds, manufactured by its parent company Dead Sea Bromine Co., Ltd., of Israel and its subsidiary, Bromine Compounds Ltd. Israel is a beneficiary developing country (hereinafter "BDC") within the meaning of Section 502, Trade act of 1974 (19 USC § 2462) and many such compounds currently being imported are eligible for duty-free entry under the GSP.

Ameribrom estimates that current duty savings related to its importations of GSP eligible products approximate [deleted] dollars per year. Attached as Confidential Exhibit 1 is a table of GSP eligible articles currently being imported by Ameribrom, by tariff classification and column I rate of duty.

In its February 9th Federal Register notice, USTR has specifically invited comments as to the role of graduation in a renewal program (Graduation is described in the notice as a policy to address the relatively uneven distribution of benefits among beneficiary countries and the growing competitiveness of certain beneficiary countries).

SUMMARY OF POSITION

Ameribrom is opposed to any revisions in the proposed GSP legislation that would codify the policy of graduation with respect to eligible products from Israel generally and brominated products specifically, or to otherwise increase the impact of the graduation policy as it is currently being administered. Should a policy of graduation be continued or codified under a revised GSP program, Ameribrom requests an exception to this program to insure that the concept of graduation does not serve to penalize underdeveloped countries for capitalizing on an industry based upon its possession of unique natural resources which are a condition precedent to the establishment and viability of such industry.

ARGUMENT

Point 1.—Continued eligibility under the GSP is essential if brominated products from Israel are to have access to the U.S. marketplace

The importance of GSP eligibility to the continued viability of the United States as a marketplace for Israeli brominated products is readily evident from an examination of Ameribrom's imports over the last several years. Many of Israel's brominated products are benzenoid derivatives (provided for in Part 1 of Schedule 4, TSUS) and are not eligible articles under the GSP while other brominated products (provided for in other parts of Schedule 4) are frequently eligible for preferential treatment under the GSP. The potential U.S. market both categories of products is substantial. Yet, a disproportionate percentage of such shipments are currently being accounted for by GSP eligible products, as evidenced by the following table (in thousands of dollars):

	Total U.S. sales of Israeli brominated products	Total U.S. sales of GSP eligible brominated products	Percentage value of GSP sales
1980	[Deleted]		
1981	[Deleted]		
1982	[Deleted]		

In each of the last three years, the percentage value of sales of products imported under the GSP have approximated two thirds of total sales. In sharp contrast, Ameribrom estimates that about one-third of the value of total annual Israeli production would be GSP eligible if imported into the United States. It is thus evident that GSP eligibility plays a significant role in the viability of the United States as a marketplace for Israeli produced brominated products.

The basis of Ameribrom's competitive difficulties in the United States market can be traced in large measure to transportation costs, higher energy and material costs (other than bromine) in Israel, and numerous other factors. This firm's competitive disadvantages have been discussed in previous submissions to USTR in connection with annual product reviews conducted under current GSP legislation.

In attempting to retain a toehold in the U.S. market under these circumstances, tariff barriers frequently prove to be that straw that breaks the camel's back. For example, in calendar year 1982, Ameribrom's profit was a mere [deleted] while duty savings on its GSP importations were almost a [deleted] dollars. This means that duty savings attributable to the GSP were 4 to 5 times in excess of total company profit. Absent the preferential treatment Israeli brominated products are currently receiving under the GSP, Ameribrom would not be able to operate at even marginal profitability and the vast U.S. market could become wholly unaccessible.

Ameribrom is aware that whenever product eligibility under the GSP is considered, due regard must be given to the impact of such action on domestic producers of like or directly competitive products. According to a 1980 report to the U.S. Department of the Interior, Bureau of Mines, imports of bromine and bromine compounds from Israel constituted less than four-tenths of a percent of domestic consumption during calendar year 1979.¹ Thus, after the first five years of the GSP program, there has been no significant impact on domestic producers of bromine and bromine compounds and withdrawal of existing benefits could not reasonably be expected to aid the domestic industry.

While there is a total absence of adverse impact on domestic producers, benefits to U.S. industries while consume bromine and bromine compounds are clear. There are but a handful of U.S. companies producing bromine and bromine compounds and, in the case of some bromine compounds, only one U.S. producer. For example, [deleted] a flame retardant, is produced and marketed by one U.S. producer, and by Ameribrom. Similarly, [deleted] a slimicide intermediate utilized for water treatment and purification, is imported and marketed by Ameribrom in competition with one U.S. company (who established the market price).

Ameribrom's importation of both such products prevents a complete monopoly in the marketplace by a single company with all the far reaching consequences that such a situation could create. However, with respect to both products, profitability to Ameribrom is quite low and loss of GSP could well terminate Ameribrom's importations of these products.

In sum, if the U.S. marketplace is to remain accessible to Israeli brominated products, continuation of GSP eligibility is essential. Moreover, whatever accessibility currently exists has provided significant benefit to U.S. consumers of brominated products without adversely impacting U.S. producers.

Point 2.—Termination of GSP eligibility for Israeli brominated products will not assist other beneficiary developing countries

As is discussed in some detail in the statement filed by Dead Sea Bromine Ltd., the development of a bromine and bromine product industry is heavily dependant on the existence of natural bromine resources. Other than the United States and Israel, there are no significant natural reserves of bromine.²

Should renewed legislation, through a graduation policy result in a loss of GSP benefits to the Israeli brominated products industry, this would not aid the competitiveness of other BDC's in this product area in the least. Bromine and Bromine product industries are virtually non-existent in other beneficiary developing countries and, in the absence of the necessary natural resources, such countries are faced with insurmountable obstacles in developing such an industry. This is in marked contrast, for example, to industries which are primarily dependant on the availability of labor, where the loss of GSP benefits to one BDC may favorably impact such industry in another.

¹ Bureau of Mines, Preprint of Bulletin 671 "A Chapter From Mineral Facts and Problems, 1980 Edition" at 4.

² France, West Germany, the United Kingdom, Japan, Italy and the Soviet Union (and to a lesser extent, India) account for the balance of world-wide bromine production, primarily as a by-product of other production processes.

Should USTR feel compelled to recommend to Congress that the policy of graduation be enforced with the same or greater severity and codified under renewed legislation, it is urged that the legislation be drafted to give due regard to the factor of natural resources and the extent to which the termination of benefits to one BDC can realistically assist the development of another.

This can be accomplished in a variety of ways. Should graduation legislation be adopted, an exception can be carved out of the statute to exclude those products which are the growth of industries dependent upon unique natural resources. Among the factors which may be considered in determining whether products fall into this category include the following:

(1) The existence of a proven reserve of a particular natural resource (possibly a minimum percentage requirement of known world reserves of the resource);

(2) The extent to which such resource is unique to one or a limited number of beneficiary developing countries; and,

(3) The necessity of utilizing the natural resources to create industrial products.

In those instances where it is determined that a BDC possesses such minimum reserve of a natural resource, that such resource is unique to that BDC (or a limited number of BDC's) and that such natural resource is a significant component of, or otherwise vital to, the production of particular products, exclusion of such products from the operation of "graduation" would be wholly appropriate. Clearly, the proposed criteria bear directly on the question of whether the loss of GSP benefits to a BDC could realistically be expected to result in a competitive boost to other lesser developed BDC's.

The proposal is quite manageable as far as administrative ease is concerned as statistics covering reserves of various natural resources are already maintained by the U.S. Department of the Interior, and the International Trade Commission currently provides data and analysis to USTR on an annual basis, pertaining to economic and technical aspects of numerous product sectors.

This proposal is wholly consistent with the purposes and goals of the GSP program, because the exclusion from graduation would not apply where an industry in a particular BDC threatens the competitive abilities of such industries in lesser developed BDC's. Moreover, the existence of a unique natural resource is the best opportunity for a particular country to secure the status of a modern industrialized nation and a higher standard of living for its people. Renewed legislation should nurture and protect such opportunities rather than discourage them through inflexible rules of competitive need or graduation.

The current GSP legislation contains exclusions from the competitive need limitations which bear striking resemblances to our proposal. Section 504(d) of the Trade Act of 1974, as amended [19 U.S.C. § 2464(d)], provides that the current 50% competitive need limitation may be disregarded where the President determines that a like or directly competitive product is not being produced in the United States.

Under our suggestion, the graduation policy would similarly be disregarded where it is determined that no competitive industry exists (in other BDC's) with respect to the product in question although such product appears to have a high competitive standing (relative to other BDC's) because of its unique nature.

CONCLUSION

The Israeli brominated products industry's need for continued benefits under the GSP program is clear if the United States is to remain a viable marketplace for these goods. The existence of a natural resource wealth in bromine has not obviated the need for such eligibility but has only enabled Israel to develop this industry in the first instance.

Moreover, such eligibility has neither adversely impacted U.S. producers nor inhibited the development of such industries in other beneficiary developing countries, but has only served to benefit U.S. consuming industries.

Accordingly, it is urged that USTR take steps to insure that the eligibility of Israeli brominated products for preferential treatment be continued. This can be accomplished by either recommending that graduation not be formally codified or by ensuring flexibility in the application of such policy so as to preserve the eligibility of those products the growth of unique natural resources.

Respectfully submitted.

SIEGEL, MANDELL & DAVIDSON, P.C.

[Public Version]

SIEGEL, MANDELL & DAVIDSON, P.C.,
New York, N.Y., April 11, 1983.

Re Dead Sea Bromine Co., Ltd./Bromine Compounds Ltd.: Renewal of GSP legislation.

EXECUTIVE DIRECTOR,
Generalized System of Preferences, Office of the U.S. Trade Representatives, Washington, D.C.

DEAR SIR: Pursuant to notice published in the Federal Register of Wednesday, February 9, 1983 (48 Fed. Reg. 6062), submission is hereby made, on behalf of Dead Sea Bromine Co., Ltd./Bromine Compounds Ltd. of comments in connection with proposals by the Office of the United States Trade Representative for renewal of, and revision to, the GSP program.

BACKGROUND

Dead Sea Bromine Co. Ltd., (hereinafter DSB) located in Be'er Sheva Israel is engaged in the production of bromine which it obtains from the Dead Sea. Bromine Compounds Ltd., (hereinafter BCL) also located in Be'er Sheva is a subsidiary of DSB, specializing in the production of various bromine compounds.

The Dead Sea, with a concentration of bromide salts many times in excess of ocean water is Israel's most significant natural resource and an excellent vehicle for future economic development of the country. Because home market consumption of bromine and bromine compounds is rather limited, DSB/BCL has naturally looked towards markets elsewhere in the world for the sale of its products. Fierce competition in the U.S. has severely limited its access to this market and toehold it has achieved is primarily attributable to those products eligible for duty-free entry under the GSP. Over the last three years, the value of DSB/BCL products imported into the United States under the GSP substantially exceeded fifty percent of the value of all such shipments to the U.S.

In its February 9th Federal Register notice, USTR specifically invited comments as to the role of graduation in a renewal program, and defined graduation as the method of rectifying the relatively uneven distribution of benefits among beneficiary countries and the growing competitiveness of certain beneficiary countries.

POSITION

DSB/BCL opposes any revisions to renewed GSP legislation which would serve to perpetuate or codify a policy of graduation with respect to Israel generally or to the Israeli brominated products industry in particular.

POINT 1.—"GRADUATION" SHOULD NOT BE APPLIED TO PRODUCTS THE GROWTH OR MANUFACTURE OF ISRAEL

The policy of graduation creates a two-tier system which differentiates the extent to which beneficiary developing countries receive, or are considered for, preferences under the program. The practical effect of graduation is to slowly "elevate" a country to most favored nation status and subject its products to column one rates of duty. Accordingly, a determination as to whether graduation should apply to a particular BDC should be made utilizing the same criteria as would apply in the determination of whether a country is to be designated as a BDC in the first instance, i.e., Section 502(c) of the Trade Act of 1974 [19 U.S.C. § 2462(c)]. An examination of such factors compels the conclusion that the importance of the proportionate share of total GSP benefits enjoyed by a particular BDC is being significantly overinflated by the administrators of the program. Economic factors are but one of four criteria to be considered by the President in determining BDC designation.

An examination of the other factors; (a) an expression by such country of its desire to be so designated, (b) whether other major developed countries are extending tariff preferences to such country, and (c) the extent to which such country has assured the United States reasonable access to the markets and basic commodity resources of such country, compels the conclusion that Israel is entitled to retain full BDC status, with all concomitant privileges:

(1) The Government of Israel and representatives of numerous Israeli industries have consistently expressed the desire to participate in the GSP program. Since the inception of the program, representatives of the Israeli Government and industry have repeatedly appeared before the GSP subcommittee to present positions and respond to questions.

Similarly, we understand that the participation of the Israeli Government and Israeli industry segments in connection with the current proceedings is quite active;

(2) The United States' major trading partners have consistently granted similar preferences to Israeli goods. With respect to the bromine and brominated products industry, not only has Japan and members of the European Economic Community (i.e. France, West Germany, Belgium, England, Italy, etc.) granted preferences to the same Israeli brominated products currently eligible under the United States GSP, but such preferences extend to numerous other brominated products, of significant volume and value, which are currently ineligible under the U.S. program; and

(3) Israel has taken affirmative steps to insure that products of the United States are granted access to the Israeli marketplace. At the time of Israel's designation as a BDC, reciprocal trade concessions were granted to the United States in the form of favored tariff rates, equal to those which Israel previously granted to products of the E.E.C., under separate treaty. We are aware of no comparable affirmative steps taken by other BDC's to insure the access of U.S. products to the markets of such countries.

Thus, with respect to all other statutory criteria, Israel's qualification as a BDC cannot be questioned and even with respect to economic criteria, difficulties which are unique to Israel warrant continued preferential status. Such factors include the high cost of obtaining numerous raw materials and goods on world markets because of Israel's limited access to such markets and high insurance and defense costs because of the political instability of the area of the world in which it is located. An additional factor to be considered is Israel's annual inflation rate which far exceeds that of any of the major industrialized nations. In 1982, Israel's version of the consumer price index rose 131.5%.

**POINT 2.—THE POLICY OF GRADUATION SHOULD NOT BE APPLIED TO THE ISRAELI
BROMINATED PRODUCTS INDUSTRY**

There are two factors characterizing the Israeli brominated products industry which make it particularly vulnerable to a loss of access to the markets of the world's major industrialized nations; (1) Dependency upon a pre-existing industrial base for bromine product consumption, and (2) the capital intensive nature of such production, characterized by high fixed costs.

Because bromine product consumption rises proportionately with rises in a nation's level of industrialization and standard of living access to the more industrialized nations of the world is vital to the health of the industry.¹ Given Israel's limited size and state of industrialization, it is no surprise that domestic consumption of bromine and bromine compounds approximates only 1½ to 2 percent of total Israeli production of these products.² Thus, if Israel is to benefit from its natural bromine resources, it is wholly dependent on access to the markets of the more industrialized nations. Domestic consumption cannot even begin to account for the initial investment and ongoing costs associated with bromine and bromine compound production.

High fixed costs are also a factor of particular importance. As production of a particular bromine compound declines, the cost of production per unit increases. As evidenced in the following table, the percentage of fixed costs applicable to these Israeli brominated products currently imported into the United States under the GSP are extremely high (percentages based on 1982 production levels):

Product	Percent value of fixed costs to ex-works selling price ¹
(Deleted)	
(Deleted)	
(Deleted)	

¹ Percent value varies from about 30 to 55 percent, depending on product.

Were access to the U.S. market for these products to be lost, sales and, ultimately, production would decline accordingly. The net effect of such losses would be to increase cost of production per unit and adversely impact the competitiveness of these products in other world markets. For some of the products where current profitabil-

¹ According to a survey of the Division of Industrial Minerals, Bureau of Mines dated Dec. 30, 1982, 66 percent of U.S. bromine compound sales in the first 9 months of the year were accounted for by gasoline additives and industrial flame retardants, while an additional 15 percent was used in the production of drilling and completion fluids.

² DSB estimates.

ity is marginal, such as [3 products named], the impact of such loss on world wide competitiveness would be particularly onerous.

What must be emphasized is that, although Israel has achieved a certain level of success in developing its bromine and brominated products based upon its possession of unique natural resources, it continues to be dependent upon the trade preferences granted by the United States and the other major trading nations of the world for the survival of this industry.

An examination of statistics showing the sources of U.S. imports of brominated products may give the appearance of an industry in a far better state of competitive health than is actually the case. As discussed below, if Israel accounts for the bulk of bromine compound imports into the United States, this is the result of the uniqueness of the industry rather than its profitability. Indeed, current U.S. consumption of Israeli bromine and bromine products constitutes a meager one quarter to one half of one percent of total U.S. consumption of such products.³

How unique is this industry? By far the greatest known subterranean reserves of bromine (other than sea water) are located in the United States in Arkansas and Michigan. The Dead Sea, an inland lake with no outlets to the sea, has been concentrating bromine salt by solar evaporation for thousands of years, giving Israel a substantial reserve base as well. According to a recent Bureau of Mines analysis⁴ additional bromine production exists, to a much lesser extent, in France, West Germany, Japan, the Soviet Union, the United Kingdom, Italy and India. These reserves are primarily the result of capturing other mineral products from seawater.

Only the United States and Israel, with substantial natural concentrations of bromine, are substantial exporters of bromine products. Reserves of bromine in the lesser developed areas of the world and among other beneficiary developing countries are almost non-existent, and even highly industrialized nations such as France and the United Kingdom have primarily dedicated its limited production to internal consumption.

One additional source of bromine, by far the largest, is sea water. However, the concentration of bromine is 60-65 parts per million in sea water as compared to 4,000-5,000 parts per million in the Arkansas brines and 12,000 parts per million in the Dead Sea brines. DSB estimates that the cost of producing bromine from sea water is more than double the cost of such production from the Arkansas or Dead Sea brines. Moreover, such costs assume all other elements being equal; i.e. the technology, skilled labor and capital investment is already present which is clearly not the case in the beneficiary developing world.

Thus, bromine production world-wide now occurs either where a rich natural resource is already present or, to a lesser extent, in those nations already possessing a sophisticated industrial structure, requisite technology to support production (usually as a by-product of other processes) and local demand.

It is, therefore, wholly accurate to state that if the Israeli bromine and bromine product industry were to collapse, no other beneficiary developing countries could take up the slack as most of these countries are decades away from such levels of industrialization or do not possess the pre-requisite natural resources.

To apply a policy of graduation under such circumstances is simply counterproductive to the purposes of the GSP and will, in no way, serve to further the ends that the policy of graduation is intended to accomplish. If USTR advocates the necessity for graduation to correct a theoretical imbalance we urge that that policy be tempered by a recognition of the following factors:

(1) The percentage of imports in a product sector from a particular BDC is not always indicative of the health of that nation's industry. The possession of unique natural resources of a BDC which is utilized in the manufacture of particular products will distort its percentage of exports to this country. Thus, an examination of the percentage of imports from a BDC must be compared with that country's share of the U.S. market (with GSP benefits already in place); and

(2) Removal of GSP benefits from one BDC will not always enhance the competitiveness of other BDC's. This factor is already recognized by USTR in the aforementioned Federal Register notice and should constitute a primary component of any graduation policy which will exist under renewed legislation.⁵

³ U.S. Department of the Interior, Bureau of Mines Publication, Mineral Industry Surveys (Dec. 30, 1982) at 2.

⁴ Id.

⁵ A specific legislation proposal in connection with unique natural resources and its place in the GSP program is set forth in the statement of Ameribrom, DSB/BCL's subsidiary and U.S. marketing arm.

SUMMARY AND CONCLUSION

To apply a policy of graduation to GSP eligible products from Israel generally is to give undue weight to a single factor when Congress has clearly intended numerous criteria to govern such a determination, including a nation's expressed desire to receive preferential treatment, its willingness to similarly grant products of the U.S. access to its markets, the existence of similar preferences to the BDC granted by other nations, and other economic factors.

To apply such a policy to Israel's brominated products industry would be particularly unjust in light of Israel's currently unimpressive performance in the U.S. market. Unfortunately, efforts to become a greater force in the U.S. marketplace have met with no appreciable success as evidenced by a comparison of Bureau of Mines percentage consumption figures in 1979 and 1982. The foothold which we have been able to achieve is the result of GSP eligibility. A loss of current benefits would not assist other beneficiary developing nations or correct the perceived wrong which a strict policy of graduation is intended to correct.

Accordingly, USTR is urged to reconsider its current application of the graduation policy. In those instances where the policy is applied, it should be exercised with flexibility and due regard for the extent to which it can realistically be expected to aid the development of other beneficiary developing countries.

Respectfully submitted,

SIEGEL, MANDELL & DAVIDSON, P.C.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., August 16, 1983.

Re possible renewal of the authority of the President to grant duty-free treatment under the generalized system of preferences.

Hon. SAM M. GIBBONS,

Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR CONGRESSMAN GIBBONS: This is in response to your invitation for comments by interested groups on the possible renewal of the authority of the President under Title V of the Trade Act of 1974 to grant duty-free treatment on eligible articles from beneficiary developing countries under the Generalized System of Preferences (GSP).

Farm Bureau, representing over 3 million member-families, offers the following comments and asks that they be included in the printed record of the hearings.

The Generalized System of Preferences which grants duty-free treatment to developing countries was opposed by the Farm Bureau prior to enactment of the Trade Act of 1974 even though our organization supported the other provisions.

Our general opposition to the granting of duty-free treatment of imported articles, products, and commodities continues. We believe that tariff concessions should be granted only in the negotiation process where concessions are received as well as granted. Farm Bureau believes that the idea of a Generalized System of Preferences is inconsistent with the most-favored-nation principle, the foundation of the General Agreement on Tariffs and Trade (GATT).

We believe that the legislative intent when the Trade Act of 1974 was enacted was to focus tariff preferences on manufactured rather than agricultural products and that developing countries did not generally need assistance in the marketing of agricultural commodities in the United States. The agricultural commodities and products produced in developing countries for export to the United States generally come from farms that utilize modern production technology, are highly competitive, and often are financed by U.S. capital. Consequently, Farm Bureau believes that they should be accorded only the tariff treatment granted most-favored nations. Duty-free preferences create serious problems for domestic agricultural producers.

Farm Bureau finds that the benefits that could accrue from the MFN principle are diminished when special benefits permit duty-free entry of agricultural commodities from many developing countries without counter concessions. Most of the developing countries have not liberalized their trade restrictions as their economies have become more affluent.

Many of the developing countries that enjoy GSP treatment on agricultural products entered into the United States have recently erected substantial tariff and other trade impediments against United States' agricultural imports. Included are such well-known trading partners as Taiwan, Thailand, Korea, Malaysia, the Philippines, Nigeria, Egypt, the Dominican Republic, Mexico, Brazil, and Argentina.

Farm Bureau is concerned regarding the escalation in the number of agricultural products for which GSP status has been granted through the years. We believe that this is a serious departure from congressional intent.

Farm Bureau, other farm organizations and commodity groups, along with the U.S. Congress, are frustrated by our trading partners' continued use of export subsidies. Many of the developing countries that enjoy GSP benefits on agricultural products use export subsidies to "buy" markets away from U.S. farmers.

We understand the Administration proposes that the renewed GSP program be structured to limit GSP treatment of highly competitive products and to assure U.S. exports greater market access in GSP beneficiary countries. Although we agree that such factors should be taken into account when the GSP legislation is renewed, we also believe more firmly that agricultural production in developing countries for export to the United States has sufficient advantage in technology, government support and labor cost, to enable them to effectively compete in the United States without the special benefits currently accorded under GSP.

Therefore, Farm Bureau will support legislative reforms which would exclude agricultural products from the GSP program.

Farm Bureau will appreciate the consideration of our view as GSP renewal legislation is being considered.

Sincerely,

JOHN C. DATT,
Secretary and Director, Washington Office.

STATEMENT OF JAMES J. WHITSETT, PRESIDENT, ANTI-FRICTION BEARING
MANUFACTURERS ASSOCIATION, INC.

The Anti-Friction Bearing Manufacturers Association ("AFBMA") is an association of 42 companies which manufacture ball bearings, roller bearings, balls and rollers in the United States. AFBMA members manufacture more than 75 percent of all U.S.-produced ball and roller bearings, an estimated \$2.8 billion in 1982. A list of the AFBMA membership is attached to this statement.

The bearing industry has long had serious difficulties with imports. In 1982, imported ball bearings accounted for 56 percent of U.S. consumption, and they have increased their share of the U.S. market on a unit basis every year for the last six years. The volume of imported ball bearings rose from 130 million in 1977 to 167 million units in 1982; at the same time, there was a net decline in U.S. apparent consumption of ball bearings. The U.S. ball and roller industry has experienced declining shipments and declining employment, and capacity utilization in 1982 was only 65 percent.

Several unsuccessful Petitions have been filed—both by foreign governments and private parties—seeking to have certain bearings placed on the Eligible Article List. In order to counter these Petitions, the Association has submitted statements to the GSP Committee of the Trade Policy Staff Committee ("TPSC"), has appeared to testify before that Committee and the International Trade Commission, and has, upon numerous occasions, responded to questions from TPSC staff members.

These activities have been time-consuming and costly. To avoid such unwarranted expenditures which are necessary each time a Petition is filed, the AFBMA urges that 19 U.S.C. § 2463(c)(1) be amended to add bearings to the list of products expressly excluded from the GSP program. Since the GSP program was instituted in 1975, the bearing industry has clearly established that it is an "import-sensitive" industry within the meaning of the existing Generalized System of Preferences law, and is likely to remain so.

In the alternative, AFBMA proposes that the GSP program be amended to provide that, when a Petition to add an article to the Eligible Article List is rejected or when an investigation by the TPSC leads to the conclusion that a product ought not to be placed on the Eligible Article List, that no new Petition with respect to that product be considered for review by the Committee for two years. Such an amendment would assure that industries such as the bearing industry, which have established that their products are not appropriate for Eligible Article treatment, need not repeatedly expend their resources in unnecessary administrative proceedings. Such an amendment would also ease the administrative burden on the TPSC.

In addition, the AFBMA proposes that 19 U.S.C. § 2463(c)(1)(F) be amended to provide for exclusion from eligibility for duty-free entry any article, such as bearings, which are critical to the national defense. Such a provision would assure the continued health of industries vital to the United States defense establishment.

The Abbott Ball Co., Railroad Pl., West Hartford, CT 06110.

- Accurate Bushing Co., A Subsidiary of Ex-Cell-O Corp., 443 North Ave., Garwood, NJ 07027.
- Aetna Bearing Co., a Katy Industries Subsidiary, 4600 W. Schubert Ave., Chicago, IL 60639.
- American Koyo Bearing Mfg. Corp., Division of Koyo Corp., of USA, Orangeburn, SC 29115.
- American Roller Bearing Co., 150 Gamma Drive, Pittsburgh, PA 15238.
- The Barden Corp., 200 Park Ave., Danbury, CT 06810.
- Brenco, Inc., P.O. Box 389, Petersburg, VA 23804.
- C & S Ball Bearing Machinery Corp. 956 Old Colony Road, Meriden, CT 06450.
- Emmco Development Corp., 43 Belmont Drive, Somerset, NJ 08873.
- Fafnir Bearing, Division of Textron, Inc., P.O. Box 1325, New Britain, CT 06050.
- FAG Bearings Corp., 118 Hamilton Ave., Stamford, CT 06904.
- Federal-Mogul Corp., P.O. Box 1966, Detroit, MI 48235.
- Frantz Manufacturing Co., Steel Bail Division, West Lincolnway, Sterling, IL 61081.
- The Freeway Corp., 9301 Allen Drive, Cleveland, OH 44125.
- General Bearing Corp., High Street, West Nyack, NY 10994.
- Hartford Ball. Co., Div. of Virginia Industry, Inc., 951 West Street, Rocky Hill, CT 06067.
- Heim Division Incom International Inc., P.O. Box 430, Fairfield, CT 06430.
- Hoover-NSK Bearing Co., P.O. Box 1507, Ann Arbor, MI 48106.
- Hoover Universal, Inc., P.O. Box 113, Saline, MI 48176.
- INA Bearing Co., Inc. 3399 Progress Drive, Bensalem, PA 19020.
- Industrial Tectonics, Inc. A Subsidiary of A. Johnson & Co., Inc., P.O. Box 1128, Ann Arbor, MI 48106.
- Kaydon Corp., 2860 McCracken Street, Muskegon, MI 49443.
- Kendale Industries, Inc., 7600 Hub Parkway, Valley View, OH 44125.
- Keystone Engineering Co., 1444 South San Pedro Street, Los Angeles, CA 90015.
- L & S Bearing Co., P.O. Box 754, Oklahoma City, OK 73101.
- Lydall, Inc./Superior Ball, 100 Wellington Street, Hartford, CT 06106.
- McGill Manufacturing Co., Inc., 909 N. Lafayette Street, Valparaiso, IN 46383.
- Morse Industrial Corp., Subsidiary of Emerson Electric Co., 620 S. Aurora Street, Ithaca, NY 14850.
- MPB Corp., Subsidiary of Wheelabrator-Frye, Precision Park Keene, NH 03431.
- National Bearing Co., P.O. Box 4726, Lancaster, PA 17604.
- New Hampshire Ball Bearings, Inc., Route 202, Peterborough, NH 03458.
- NMB Corp., 9730 Independence Ave., Chatsworth, CA 91311.
- NN Ball & Roller, Inc., 800 Tennessee Rd., Erwin, TN 37650.
- NTN Bearing Corp., of America, NTN Elgin Corp., 1500 Holmes Road, Elgin, IL 60120.
- PT Components, Inc., Link-Belt Bearing Division, P.O. Box 85, Indianapolis, IN 46206.
- Rexnord Inc., Mechanical Power Division, 4701 W. Greenfield Ave., Milwaukee, WI 53214.
- Rollway Bearing Division, Lipe-Rollway Corp., Box 4827, Syracuse, NY 13221.
- SKF Industries, Inc., 1100 First Ave., King of Prussia, PA 19406.
- Thomson Industrial, Inc., Manhasset, NY 11030.
- The Timken Co., 1835 Dueber Avenue, SW., Canton, OH 44706.
- The Torrington Co., Subsidiary of Ingersoll-Rand Co., P.O. Box 1008, Torrington, CT 06790.
- TRW Bearings Division, TRW, Inc., 402 Chandler Street, Jamestown, NY 14701.

STATEMENT OF THE BOARD OF FOREIGN TRADE, REPUBLIC OF CHINA ON TAIWAN,
SUBMITTED BY ITALO H. ABLONDI, P.C., WASHINGTON, D.C.

SUMMARY

The Board of Foreign Trade (BOFT) of the Republic of China on Taiwan (ROC) urges that the United States Generalized System of Preferences (GSP) be renewed without severe restrictions or reductions in duty-free trade. Experience under the GSP program has demonstrated that both the United States and the ROC derive substantial benefit from the program. The United States has secured increased export sales in beneficiary countries, consumer savings, and increased responsible

participation of beneficiary countries in an open and fair international trading system. U.S. exports to the ROC alone grew from \$1.6 billion in 1976, the first year under GSP, to over \$4.4 billion in 1982—an increase in many ways attributable to the GSP program. GSP duty-free treatment was provided to about \$2.4 billion of ROC trade in 1982, over 4 percent of ROC GNP; much of this trade would be non-competitive in the U.S. market if GSP treatment were removed from it, severely damaging the ROC economy.

The first ten years of the program's operation has also demonstrated that the GSP system, as it is currently structured and administered, provides prompt and effective protection for U.S. industries and eliminates GSP benefits on articles from a country which are internationally competitive. GSP imports represent a minimal fraction of total U.S. imports and apparent consumption (less than 1 percent) to begin with, and existing safeguards have provided adequate protection when needed.

Imposition of new, substantial restrictions on GSP use would be unwarranted and would undermine the very objectives of the program. Past experience as supported by several objective studies has demonstrated that the only effect of removing benefits from countries having substantial GSP trade has been to shift trade to other developed countries such as Japan, and not to the least developed countries. However, should restrictions be increased, such as by imposing lower competitive need limits, the BOFT strongly urges that such restrictions not be applicable to items for which total U.S. imports are de minimis (\$4 to \$5 million), and that the President be given authority to waive application of the restrictions when it is in the national interest. Additionally, a "grace period" of sufficient duration should be provided to allow affected beneficiary countries to make necessary adjustments to the damaging impact of loss of duty-free treatment. Further, while the BOFT has supported and worked for increased market access in the past and remains committed to doing so in the future, it believes that pursuit of this objective in the GSP program would severely damage that program and prove unworkable.

I. INTRODUCTION

In response to a request for comments issued by the Ways and Means Trade Subcommittee on Trade of the Committee on Ways and Means on July 21, 1983, the Board of Foreign Trade (BOFT) of the Republic of China on Taiwan (ROC) submits the following comments on renewal of the United States Generalized System of Preferences (GSP). The BOFT believes that the GSP program as it is presently structured, has benefitted substantially both participating countries as well as the United States itself.

While some changes could and should be made in the GSP program, the BOFT suggests that these changes be made only on the basis of sound policy goals and proven experience under the program, and that these changes not defeat the very objectives of the GSP program.

II. GSP PROVIDES SUBSTANTIAL ECONOMIC BENEFITS TO THE UNITED STATES

The economic benefits of GSP have flowed both to beneficiary countries and to the United States. The U.S. has benefitted economically in two principal ways: (1) increased U.S. exports to LDC markets; and (2) lower costs for U.S. consumers. The United States has also benefitted to the extent that GSP has permitted the ROC to play a larger role in the maintenance of the world trading system.

A. GSP has spurred U.S. exports to beneficiary countries

GSP has offered the ROC and other beneficiary countries improved access to the U.S. market which has helped them to generate greater hard currency export earnings. These increased export earnings have in turn enabled beneficiary countries to expand the volume and value of imports from the United States. By 1980, total U.S. trade with developing countries was larger than U.S. trade with Europe and Japan combined. The LDC share of U.S. manufactured exports increased from 29 percent in 1970, prior to GSP, to nearly 40 percent in 1980. The same is true in the critical area of high technology U.S. exports: by 1980, LDCs accounted for approximately 40 percent of such U.S. exports. These trends, moreover, are likely to continue as long as LDCs are able to generate, through GSP trade, the necessary hard currencies.

As Table I indicates, U.S. annual exports to the ROC alone increased from \$1.6 billion in 1976, the first year of the GSP program, to \$4.4 billion in 1982, making it one of the fastest growing markets for U.S. exports. The U.S. gain, measured in terms of increased U.S. sales to the ROC made possible by GSP trade, far outweighs the minimal amount lost through uncollected duties. This export growth was assisted by the U.S. Department of Commerce's American Trade Center in Taipei, which

is provided with free office space and other assistance for U.S. products exhibitions. It was also aided by administrative orders adopted by the ROC limiting certain imports to U.S. or European origin. In 1978, the ROC initiated the "Buy More From America" program. Since then, seven Procurement Missions have been sent to the U.S., accounting for nearly \$6 billion in agricultural and industrial purchases throughout the United States (Table II).

A significant amount of the increased export sales by the United States to the ROC is tied directly to ROC production of GSP-eligible articles. U.S. producers supply a variety of raw materials, equipment, machinery, and constituent products that are used by ROC producers in the manufacture of their GSP products. As these products are developed, many are sold around the world, not just in the United States, so that in many cases these imports of raw materials and parts from the United States increase proportionally more than do their associated GSP exports back to the United States.

B. GSP has provided U.S. consumers with substantial savings

GSP imports have also provided U.S. consumers with substantial savings over the course of the program. The value of the GSP program to U.S. retail consumers is much greater than simply the duty rate avoided, since a duty increase is magnified many times over by the time an imported article reaches the end-user. U.S. importers and retailers have found in the course of numerous GSP product review cases that loss of duty-free treatment results in retail price increases of 3 to 5 times the duty amount imposed. It would be reasonable to expect, therefore, that elimination of duty-free treatment on the scale urged by some will lead directly to substantial retail price increases for U.S. consumers. Further, many GSP imports are cottage industry products which are not produced or are produced in very limited quantities in the United States. Other GSP exports have often developed new market sectors in the United States which have not been developed by domestic producers. Others moderate escalating prices or provide consumers with less costly alternatives. This is particularly important for industrial consumers, i.e. U.S. firms which need low-cost inputs for U.S. production. GSP imports of the inputs or components often provide U.S. producers with the margin needed to successfully compete against developed country imports, and hence promote U.S. production and employment. The BOFT has estimated that at least 16 percent of ROC GSP exports consist of such intermediate products which require further work in the United States.

In many instances, GSP imports of components provide U.S. producers with the only satisfactory source of supply where U.S. production can not meet quantity, quality or price requirements. In a recent GSP product review case involving imports of birch three-ply door skins, for example, the point was vigorously made by U.S. door manufacturers, who employ thousands of U.S. workers, that GSP door skin imports were the only viable source of supply for their products. U.S. production simply could not meet their quantity and quality requirements. Loss of GSP in cases such as this would only lead to an increase in cost for U.S. consumers at all economic levels without resulting in a comparable benefit either to individual U.S. producers or to the overall economic interests of the United States.

C. GSP has enabled beneficiary countries to contribute to the maintenance of an open and fair trading system

1. ROC tariff reductions

The GSP program has also served the United States' interests to the extent that it has enabled the ROC to play an increasingly important role in the maintenance of the world trading system. Since the inception of the GSP program, the ROC has gained two trade agreements with the United States (in 1978 and 1981) reducing tariffs on 339 categories of commodities in one agreement and on 39 categories in the other. The ROC has agreed with the United States to observe obligations substantially the same as those applicable to developing countries as set forth in certain of the Tokyo Round MTN Codes. The ROC also unilaterally reduced tariff rates on a number of household articles, such as electric appliances.

2. ROC measures to limit counterfeiting

Another example of the affirmative steps the ROC is taking to make the trading system work is found in the area of commercial counterfeiting. The BOFT wishes to emphasize that the Government of the ROC is deeply concerned over the problems caused by commercial counterfeiting, especially the tension it has created in U.S.-ROC trade relations. As a country which has relied and will continue to rely heavily on foreign investment and international trade, the ROC simply can not afford to allow problems which may have existed in the past to continue. Unfortunately,

while most ROC manufacturers and traders are law-abiding people, a handful of counterfeiters can hurt everyone and jeopardize much larger governmental interests.

It is also important to point out, when addressing the issue of commercial counterfeiting, that it is in many respects an inevitable phenomenon in developing countries. More importantly, it is a problem that does not lend itself easily to control or effective policing by governmental authorities. Just as developed countries themselves face formidable challenges in seeking to eliminate counterfeiting operations within their own territories, so developing countries also are challenged with difficulties inherent in the nature of the practice. The U.S. Congress is itself now grappling with legislation (S. 875 and H.R. 2447) that would impose criminal penalties for those who knowingly produce or traffic in counterfeit trademarks. In this respect, the ROC already has taken stronger measures than the United States. The ROC remains fully willing to cooperate with the United States in seeking to eliminate these damaging practices.

The ROC already taken a variety of concrete steps to eliminate counterfeiting, including: (1) stiffening of the legal penalties for counterfeiting in the ROC, including severe administrative penalties such as revocation of export privileges and criminal penalties which were raised to a maximum of 5 years in prison and/or fines; (2) the screening of ROC exports more carefully for unlawful use of trademarks; and (3) an intensive educational campaign aimed at increasing the understanding among ROC businessmen of the importance of trademarks and the seriousness of counterfeiting. Under the new criminal penalties, prison terms, once imposed, must be served by convicted counterfeiters without commutation of the sentence, which has served as a strong deterrent. These measures, which have been implemented by the ROC in a concerted effort to prevent counterfeiting problems and which are more severe than measures taken by any other developing or developed country, are representative of a much larger effort by the ROC to play a useful role in supporting the international trading system.

The GSP program has benefitted the United States economically through increased U.S. sales abroad, consumer benefits, and through the assumption by beneficiary countries of a more responsible role in the trade field. In short, in a very real sense, the more the United States encourages and supports GSP, the more it increases its exports and fosters the development of an open and fair world-wide trading system.

III. MAINTENANCE OF GSP SERVES A CRITICAL FOREIGN POLICY OBJECTIVE OF THE UNITED STATES

In these times of economic recession in the United States and questioning of traditional means of foreign aid—direct bilateral and multilateral assistance—GSP remains an effective and economical means for promoting real economic development and good will for the United States. Unlike direct aid, the benefits that the U.S. extends through GSP cost U.S. taxpayers relatively little in terms of lost duty revenues (approximately \$650 million in 1982, which is less than the amount of U.S. bilateral aid that went to certain individual countries alone in 1982), but results in concrete economic development generated through trade and, as pointed out above, increased U.S. export sales in beneficiary countries. The resulting benefits, both for the U.S. and beneficiary countries, are many times greater than this modest cost. The GSP program is by far one of the most cost-effective means for assisting developing countries.

The benefits of GSP must not be expressed only in terms of dollars and cents, however, for the economic development which GSP trade generates also results in political and social stability in developing countries and promotes closer relations between those countries and the United States. Elimination or severe restriction of GSP would be interpreted as a step backward from the United States' desire to see these countries assume a greater role in the world trading system. It would encourage closer economic and perhaps discriminatory ties between those LDCs and developed countries which continue their preference programs relatively unchanged. It should be recalled that much of the impetus that lay behind the original passage of GSP legislation in 1975 was the concern of many in the U.S. business community that existing preference schemes between other developed industrial countries and developing countries were locking U.S. exports out of important markets. See, e.g., 119 Cong. Rec. H10962-11045 (December 10, 1973) (Statements of Reps. Pettis, Whalen, Biester, Fascell, and Fraser).

Severe restrictions on or elimination of the U.S. GSP program may also be seen as opportunistic and cynical by the United States' trading partners. Preference sys-

tems are maintained by developed countries under an expectation that each country is to share approximately equally in the burdens which such preferential programs entail. The European Community, for example, renewed its own GSP system in 1981 for another 10-year period and in the process eliminated many of the complex administrative provisions which had discouraged greater use of the program in the past. A drastic cut-back in the U.S. program, under the rubric of graduation or whatever, would upset the balance of burden-graduation or whatever, would upset the balance of burden-sharing and could be interpreted as protectionism directed at the weakest members of the international community.

IV. GSP HAS PLAYED AN IMPORTANT ROLE IN THE ECONOMIC DEVELOPMENT OF BENEFICIARY COUNTRIES

Since its inception in 1976, the U.S. GSP program has become an integral part of the economic development plans of many beneficiary developing countries. By 1982, total GSP-eligible imports had grown to over 20 percent of total U.S. imports from beneficiary countries. Regionally, this dependence was even more marked: GSP-eligible imports from Asian beneficiary countries represented nearly 30 percent of total imports from these countries, while it reached 16 percent for Latin American beneficiary countries.

In the case of the ROC, the importance of GSP is even more marked: the share of the ROC, the importance of GSP is even more marked: the share of the ROC's total exports to the United States represented by GSP-eligible products has grown from 35 percent in 1976 to over 48 percent in 1982. In 1982 percent of the ROC's exports to the United States actually received duty-free treatment. Perhaps the importance of GSP to the ROC can be best understood when viewed in light of the fact that the value of the ROC's GSP-eligible exports represents fully 8 percent of its Gross National Product (GNP). Taking actions which affect the GSP status of U.S. GNP.

As Table III vividly indicates, the ROC's GSP exports to the United States have grown much more rapidly since the program's inception than its non-GSP exports indicating that the preferential treatment provided by GSP does have a clear impact on the competitiveness of ROC products in the U.S. Market. The other side of the coin, however, is that loss of GSP can reasonably be expected to severely retard the ROC's ability to compete in the U.S. market and to lead to a loss of export trade.

The importance of GSP to beneficiary country competitiveness in the U.S. market was vividly demonstrated in the International Trade Commission's (ITC) recently released report on the GSP program. Changes in Import Trends Resulting from Excluding Selected Imports from Certain Countries from the Generalized System of Preferences, Report on Investigation No. 332-147, USITC Pub. 1384 (May 1983) (hereinafter cited as "ITC GSP Report"). On the basis of substantial statistical analysis, the ITC found that "Overall, the establishment of the exclusion [loss of duty-free treatment through competitive need limits] coincided with the end of the rapid rise in imports and with the lowering of import share in subsequent years." (Id. at iii, pp. 8-10) This empirical analysis strongly contradicts the assertion often made that GSP provides an "unnecessary" advantage which many beneficiary countries do not need to compete in the U.S. market.

GSP has helped promote not simply a growth in the value or volume of exports to the United States but also, and possibly more importantly, a growth in the variety and number of articles actually produced in and exported from the ROC. Between 1976 and 1982, the variety of goods exported under GSP from the ROC, as represented by individual TSUS items, increased by over 50 percent.

Indeed, GSP has become an essential element in the ROC's development. GSP has been interwoven throughout the ROC's economic fabric—in export earnings, diversification of production and export markets, as well as in increased investment in the ROC.

Yet the benefits to the ROC from the GSP program should not be expressed only in terms of macroeconomic indicia, for the availability of preferential treatment has come to play as large, if not larger, a role in the lives of literally millions of individual ROC businessmen and employees. Many ROC businesses have made significant financial and resource commitments based on the availability of GSP treatment, as was intended by the United States when it implemented its program.

ROC firms competing in the United States market face significant competitive disadvantages resulting from their distance from the U.S. market and from their relative lack of development and natural resources. Further, many of the GSP products exported from the ROC are fungible, or widely available, standard products which are extremely sensitive to price fluctuations. These facts, together with the small size

of most ROC firms by United States or world standards, mean ROC firms are not able to absorb significant changes in their terms of trade, such as would result from loss of GSP, as easily as firms which do not have their disadvantages.

The general effect of loss of or increased restraints on duty-free treatment under GSP for Taiwan would be a significant worsening in the terms of trade for most ROC products receiving GSP. Loss of GSP would eliminate the ability of many Taiwan products to compete in the U.S. market, damaging both individual producers as well as Taiwan's economy as a whole. This impact would be especially serious now because of the current worldwide recession which has already seriously injured Taiwan's and other developing countries' economies.

V. GSP LAW IN ITS CURRENT FORM PROVIDES PROMPT AND EFFECTIVE PROTECTION FOR U.S. INDUSTRIES AND ELIMINATES GSP FROM PRODUCTS FROM COUNTRIES WHICH HAVE DEMONSTRATED COMPETITIVENESS IN THE PRODUCTS

A. GSP imports represent an insignificant share of total imports or consumption

Total GSP duty-free imports have never been more than a minimal percentage of total U.S. imports, averaging around 3 percent since the program's inception. Moreover, with respect to many GSP imports, there are either no or very few U.S. producers of like articles, especially in the many labor-intensive or cottage-industry products that are imported from beneficiary countries.

B. Statutory exclusions eliminate a substantial amount of trade from GSP eligibility *ab initio*

In a recently concluded study, the ITC found that "GSP imports accounted for approximately 0.5 percent of apparent U.S. consumption during 1978-81." An Evaluation of U.S. Imports Under the Generalized System of Preferences, USITC Pub. No. 1379 (May 1983) at p. VI. Moreover, even in the product sector with the highest GSP import protection, miscellaneous manufacturers, the import-to-consumption ratio averaged only 2.1 percent. (Id.)

While the minimal share of imports and absence of competition make it unlikely that the GSP program has injured or would threaten U.S. jobs or industries in a general sense, there are also ample protections built into the existing GSP law to protect U.S. firms, workers, and even industries from injury due to specific product imports. Protection is provided under GSP in three principal ways: (1) many import sensitive products—textiles, apparel, shoes, certain steel and glass products and electronics—are statutorily excluded from eligibility under GSP; (2) competitive need limits work automatically to eliminate duty-free treatment for articles which exceed either the percentage or indexed limits; and, (3) discretionary graduation authority gives the President broad discretion to make any other alteration under the program which he deems warranted under the circumstances.

These aspects of the GSP program also insure that a country does not receive GSP treatment on a product in which it has become internationally competitive. The severity of these automatic and discretionary exclusions has made the U.S. GSP program one of the most restrictive of preferential schemes among developed countries. Because of the statutory exclusions and limited product coverage, GSP-eligible trade averaged only 35 percent of total trade from beneficiary countries in 1981. In 1982, only \$8.4 billion or 48 percent of a total of \$17.4 billion GSP-eligible trade actually received duty-free treatment. This U.S. percentage is significantly lower than is the case for most other countries providing preferential programs. (See, e.g., Operation and Effects of the Generalized System of Preferences, UNCTAD Fifth Review (1980), U.N. Pub. E. 81.II.D6, p. 33.) For European Community members, for example, the average share of duty-free imports to GSP-eligible has ranged from 55-60 percent. (See, Commission of the European Communities, The Generalized System of Preferences of the European Community, (pamphlet, Feb. 81), pp. 6-7.)

C. Competitive need exclusions

The value of total competitive need graduations has grown from \$1.9 billion in 1976, at the program's inception, to \$7.1 billion in 1982 or by 374 percent. Competitive need exclusions rose not only absolutely but also relative to total GSP duty-free and total GSP-eligible imports under the program. Between 1976 and 1982, the ratio of trade excluded from GSP benefits by competitive need limits to actual GSP duty-free imports rose from .59 to .85, while the ratio of competitive need exclusions to total GSP-eligible imports rose from .29 to .41. Competitive need exclusions have thus taken a larger and larger bite out of GSP imports throughout the program's history.

The vast bulk of these competitive need exclusions, moreover, have come from the program's major beneficiaries which have suffered competitive need losses commen-

surate with, or greater than, their use of the program. In 1982, the top 10 beneficiaries suffered over 85 percent by value of total competitive need losses. While the ROC's GSP duty-free imports have grown at an average annual rate of 27 percent over the course of the program, its competitive need losses have risen at an annual rate of over 60 percent. Assuming these rates remain constant, the absolute value of ROC exports excluded by competitive need limits would well exceed the value of its duty-free trade by 1984. The statistics on competitive need exclusions clearly reveal that, while major beneficiaries such as the ROC account for a large portion of duty-free trade under the program, they suffer an equal, if not greater, share of competitive need exclusions.

D. Discretionary graduation

Since 1980, discretionary graduation, under which the United States may remove GSP treatment from a particular product for a particular country even if those imports do not exceed competitive need limits, has provided even greater protection to U.S. industries. Discretionary graduation has been exercised in three principal ways: (1) through review of petitions submitted by interested parties seeking graduation of specific products; (2) through failure to redesignate an item that becomes eligible for duty-free treatment; and (3) failure to allow waiver of the 50 percent limit for de minimis trade items.

Numerous U.S. industries and small businesses have availed themselves of the new annual procedures to seek removal of GSP treatment from specific products for particular countries. Since discretionary graduation was recently implemented, some 43 petitions from affected U.S. industries seeking either complete or country-specific elimination of an item from GSP eligibility have been filed and accepted (See Table IV). Of the 43 petitions accepted, 16 sought elimination of GSP for the ROC imports. Of these 16 petitions involving the ROC, 9 led to eventual graduation of the product in question. These 9 graduated products represented 45 percent of the 20 products graduated in total.

Discretionary graduation authority has been exercised most harshly with respect to GSP items eligible for redesignation. As Table V indicates, in the three years since graduation was implemented well over half of all items eligible for redesignation were graduated and nearly 90 percent of all those ROC items eligible for redesignation were graduated. In terms of trade value affected, three-fourths of total trade eligible for redesignation was graduated rather than redesignated in 1982. (Table VI). For the percent, 99.5 percent of its eligible trade in 1982 was graduated. The statistics reveal that use of discretionary graduation has become almost automatic in the case of the major beneficiaries: in 1982, 100 percent of graduated trade came from the top ten beneficiaries and this graduated trade represented fully 95 percent of their trade eligible for redesignation. It should be pointed out, in addition, that graduation in the context of product redesignation has been carried out with no formal mechanism for soliciting comments on impending graduation decisions for products eligible for redesignation.

Because of the many problems that have arisen with respect to discretionary graduation in the redesignation context, serious consideration should be given to changing the current practice. Many redesignation items are precisely those which should not be graduated: actual statistics have demonstrated that loss of duty-free treatment has seriously damaged their ability to compete in the U.S. market indicating that they are therefore not internationally competitive. (See ITC GSP Report, *supra*, at pp. iii, 8-10, 12.)

Looking more generally at the discretionary graduation authority, it is readily evident that the ROC has suffered, as was the case with competitive need limits, a greater share of total graduations than any other beneficiary. In 1982, the ROC's total losses to discretionary graduation amounted to \$353 million or 36 percent of total graduations of \$975 million (See Table VII). When losses due to both competitive need limits and discretionary graduation are added together, the total value of the ROC trade that is denied duty-free treatment amounts to approximately \$2.3 billion or 28 percent of total losses under the program. These existing limits eliminate duty-free treatment, largely automatically, for approximately half of the ROC's GSP-eligible trade.

VI. IMPOSITION OF NEW, SUBSTANTIAL RESTRICTIONS ON GSP USE WOULD BE UNWARRANTED AND DAMAGING

Because competitive need limits and discretionary graduation have already been effective, and indeed in some cases unnecessarily protective of U.S. industry, the imposition of greater restrictions on the GSP program would be unwarranted and would be viewed by many beneficiary nations as only a punitive or protectionist

action. This is particularly true of such blunt and damaging restrictions as lowered competitive need limits, sector graduation, or country graduation as have been proposed in the past.

Lowering the existing 50 percent or \$53 million (adjusted for GNP growth) limits would perpetuate and indeed only aggravate the effects of what were originally wholly arbitrary limits without bearing any relationship, except happenstance, to developing country competitiveness, to potential or actual harm to a U.S. industry, or even to the overall economic interests of the United States. In the case of the ROC alone, reducing these limits by 50 percent to the range of 25 percent or \$25 million, for example, would reduce GSP duty-free imports in a capricious fashion by over one-half, affecting trade which represents fully 2 percent of the ROC's GNP. To put this in perspective, it would be equivalent to other countries suddenly raising the duties on one-fourth of total U.S. exports by over 7 percent (the average duty waived under GSP). Such a shock would severely disrupt trade.

Additionally, the BOFT is quite concerned that while certain lowered limits may appear on their face to be country neutral, in practice the effects of substantially reduced limits would be to place a disproportionate share of the losses on the ROC. While the ROC is the largest exporter of GSP goods to the United States and would expect that any restriction of the program would thus affect it more in absolute terms, a number of the current renewal options would place a disproportionate share of the loss on the ROC and thus appear to lead to discriminatory results.

A. Effects of a lowered percentage limit would be severe without modification of the de minimis amount

The problems caused by lowered competitive need limits are especially severe in the case of a lowered percentage limit. While the GSP law currently makes use of the de minimis waiver to prevent the present percentage limit from eliminating GSP benefits on items which are clearly not internationally competitive or threatening to United States interest, the de minimis limits have become wholly unworkable against the realities of present-day international trade. Even the most cursory review of the effects of lowering the percentage limit to the area of 25-30 percent reveals that an enormous amount of trade will be swept up and eliminated from GSP treatment which is precisely the kind of trade that the GSP program was intended to promote. Assuming that a 25/25 limit were adopted, of the 102 ROC items what would lose duty-free treatment solely because of the 25 percent limit (based on 1982 statistics), fully 45 of these items involved ROC imports of less than \$3 million. Because of these deleterious effects which offer no countervailing benefit to the United States, the BOFT urges that the de minimis level should be raised at least to the range of \$4-5 million.

B. Sector of country graduation serves no policy objective and would be unnecessarily punitive

Graduation based on product sectors or even macroeconomic or developmental status indicators, as has been suggested by some in the past, is also without any sustainable policy or factual basis, and would merely result in protectionism, whatever the intent of its supporters. Since there is no generally accepted basis for establishing when a developing country becomes a developed country, selecting certain indices (e.g., positive trade balance, volume of exports under GSP, per capita GNP, etc.) is arbitrary and does not necessarily reflect the true level of development. Congress wisely stayed clear of the attempt to impose concrete country graduation criteria in the GSP law when it was originally enacted precisely because no two legislators or economists could agree on a sound set of criteria to use. (See, e.g., H.R. Rept. No. 571, 93rd Cong., 1st Sess. (October 10, 1973) at 84; and S. Rep. 1298, 93rd Cong., 2nd Sess. (November 26, 1974) at p. 219.) Little has changed since that time to suggest that a similar attempt now to arrive at some formula would meet with any better results.

Further, with product sector graduation, since the U.S. industrial product sector classification system does not correlate precisely with its import classification system, a major problem is simply defining what is meant by a product sector and then being able to rationally classify and examine imports in such sector. Even assuming these substantial administrative problems could be overcome, which would almost certainly require the use of arbitrary and somewhat capricious definitions, sector and country graduation ignore the very real facts of international competitive life; developing countries, such as the ROC, may be competitive in a few products within a large product group, without being competitive across the range of products in the sector or in their economy. The Office of the United States Trade Representative recognized these inherent problems in a sectoral approach when it was asked to comment on it by the House Ways and Means Committee during the

1980 review of the GSP program. (See, Operation of the Generalized System of Preferences, hearings before the Subcommittee on Trade of the House Committee on Ways and Means, 96th Cong., 2nd Sess. 96 (1980) (written response of USTR) p. 20.) The ITC's review of GSP also supports this contention: where GSP was eliminated, the ITC found no evidence to indicate that producers could shift production and exports into similar or related items. ITC GSP Report, supra, at p. iii, 24. Product strength simply did not imply sector strength. Nor in many cases do beneficiary countries have the resources or ability to become competitive when preferences have been eliminated through sector graduation. Thus, sector or country graduation will tend to retard further development of and diversification into areas within a larger product sector which are not internationally competitive, and would thereby frustrate the original objectives of the GSP program.

VII. INCREASED GRADUATION AND RESTRICTIONS ON MAJOR BENEFICIARIES HAVE NOT RESULTED AND WILL NOT RESULT IN INCREASED GSP BENEFITS FOR OTHER BENEFICIARIES

Contrary to arguments that have often been made in support of increased graduation or other restrictions aimed at the major GSP beneficiaries, actual experience under the program has revealed that when GSP duty-free treatment has been denied to one or all of the major beneficiaries in a particular item, denial has most often not led to meaningful increases in imports in the affected products from beneficiaries other than the majors. This is the conclusion of the Comptroller General of the United States with respect to competitive need limits in his report to Congress in 1980 on GSP (GAO Pub. 10-81-10 (Nov., 1980) pp. 23-29), and is the same conclusion reached in the President's Report to Congress on the First Five Years' Operation of the Generalized System of Preferences. (Committee on Ways and Means, 96th Cong., 2nd Sess., WMCP 96.58 (Apr., 1980), pp. 30, 68.) Most recently, the ITC GSP Report also corroborated this conclusion after having analysed a substantial amount of import data over the program's history. It concluded "The countries benefitting most from the exclusions are advanced developing countries and developed countries—not less developed countries." (Id. at iii.)

If any effect occurs, most often it is that increased restrictions and graduation merely shift trade either to one of the other major beneficiaries (when only some of the majors are restricted, which serves only to discriminate against the restricted country in favor of its competitors) or to developed countries such as Japan which were never the intended beneficiaries of the program, or merely reduces exports to the United States in that product, thereby reducing the overall benefit of GSP. This experience is easily enough explained: a precondition for increased use of the program by countries other than the majors is not increased graduation of the majors, but rather the development of a basic economic infrastructure and the industrial base required to enter into production of the variety of goods receiving GSP treatment in sufficient quantity and quality to serve the United States market. The economies of most beneficiary countries are still predominantly devoted to the production and export of primary agricultural goods and labor-intensive products, such as textiles, apparel, footwear, and leather goods, which are statutorily excluded from the program.

Increased graduation of the majors may serve as effective and discriminatory protection or as a penalty, but it is mistaken to contend that it will assist in a substantial, meaningful way in increasing the use of the program by other developing countries. By contrast, the existing provisions of GSP have significantly reduced the share of GSP benefits enjoyed by the major beneficiaries. The average share of total duty-free trade accounted for by the five major beneficiaries for the three-year period, 1979-81, compared to the average for the previous three-year period (1976-78) dropped by 15 percent. The GSP system as it is currently structured is experiencing a natural process of evolution, with the major users gradually giving way to other developing nations as these countries do in fact develop the requisite industrial base and greater efficiencies. This has not been accomplished by capriciously shifting benefits and imposing penalties, but by the normal development for other users which would have occurred with or without the presence of the major beneficiaries.

VIII. PRESIDENTIAL WAIVER AUTHORITY CAN BE USED TO PROMOTE THE OBJECTIVES OF THE GSP PROGRAM AS WELL AS MAKE IT MORE RESPONSIVE TO ACTUAL MARKET CONDITIONS

The BOFT strongly supports the inclusion in any renewal legislation of authority for the President to waive the application of competitive need limits when the national interest so requires. Under the present competitive need system, GSP benefits

are removed automatically on a host of products where there is little, if any, justification for the removal due to either international competitiveness or injury to a domestic interest. On many items, there is simply no U.S. production whatsoever, or the duty amounts to only a nuisance duty; the only result of denying duty-free treatment on these items is increased costs to U.S. consumers at all levels of the economy. Presidential waiver authority would help alleviate this problem by giving the President the ability to disregard the limits on products where no compelling interest would be served by eliminating duty-free treatment.

Waiver authority would become all the more important if the competitive need limits were lowered to the range of 25 percent or \$25 million. As mentioned above, the 25 percent limit, in particular, will sweep in an enormous variety of products in which trade volumes and values are low and which do not threaten U.S. industry. While an increased *de minimis* will solve some of these problems, waiver authority could also be particularly helpful in reducing the severe impact of the lowered limits.

While the BOFT supports the inclusion of waiver authority, it is concerned about certain of the criteria upon which it will be exercised. The ROC has taken numerous steps, as outlined above, in support of an open and fair international trading system and expects to continue its efforts in this direction. The BOFT is nonetheless concerned about proposals being considered which would tie GSP benefits directly to issues related to market access. There are enormous practical difficulties in valuing market access concessions and in actually administering a "buy back" program under which the President would waive competitive need limits in return for concessions from beneficiary countries.

A major problem that has plagued the GSP program in the United States and in other preference-granting countries is the sheer complexity of the programs themselves. Beneficiary nations often are discouraged from taking greater advantage of the programs because the procedures they must abide by and the formulas determining eligibility are sometimes quite complicated; preference-granting countries, on their part, come to resent the programs because they are difficult and costly to administer.

Faced with these problems, the European Community made a major effort to significantly simplify its system when it renewed its GSP program in 1981. It would seem that this should also be an objective of the United States Government as it considers renewal alternatives. Yet, were the United States to adopt a "buy back" GSP system, it would be increasing the complexity of the program rather than reducing it. Beneficiary nations subject to the reciprocity restrictions would regularly be forced to undertake lengthy and technically intricate negotiations with the United States covering a substantial number of tariff items. Exporters in beneficiary nations and U.S. importers would be even more uncertain than they currently are as to the fate of GSP with respect to specific products since GSP eligibility would hinge not on standards that are at least faintly comprehensible but on the whims and political gyrations of bilateral negotiations.

Another troubling aspect of the "buy back" concept is the transient value of a preference which is bought back by an LDC concession while discretionary graduation remains in effect or the President has unfettered discretion to revoke a waiver. It would be fanciful to imagine that a beneficiary nation would be willing to make a real, and presumably permanent, tariff or non-tariff concession when in return it received preferential treatment that could evaporate overnight as a result of a petition by a U.S. industry or a shift in attitude by a sitting administration.

IX. IF CHANGES ARE MADE IN GSP, A SUFFICIENT "GRACE PERIOD" SHOULD BE INCLUDED TO ALLOW FOR NECESSARY NEGOTIATIONS AND ADJUSTMENTS IN COUNTRIES AFFECTED BY LOWER LIMITS

While the BOFT believes that many problems are raised by the application of market access conditions to the grant of GSP benefits, should renewal legislation adopt such a scheme, it is crucial that a sufficient period of time be provided before imposition of reduced limits to allow for comprehensive discussions between countries leading to a mutually acceptable agreement with respect to off-setting concessions. The BOFT believes that, rather than adopting a fixed period in which these negotiations will run, it would be better to suspend application of reduced competitive need limits until good faith negotiations were actually concluded. For those items on which agreement could be quickly reached, resulting action could be taken immediately, whereas for items involving more protracted negotiations, the period of suspension should continue beyond the two-year period envisioned in the Administration's proposal. Since there will be literally hundreds of items up for considera-

tion, together with difficult issues of valuation, it is entirely foreseeable that these negotiations could extend beyond the two-year period.

Inclusion of a "grace period" in renewal legislation is critical also because of the enormous and severe impact that imposition of reduced competitive need limits would have on the ROC economy. As mentioned above, it is estimated that a 25/25 limit could eliminate duty-free treatment on over \$1 billion in ROC exports to the U.S. Given an average duty rate of approximately 7 percent ad valorem, this would result in a sudden and dramatic disruption in the terms of trade and an increase in duty costs of as much as \$70 million. Even for a fully mature economy such as in the United States, this sort of shock, relatively speaking, would cause severe disruptions and hardships on both the personal as well as the national levels. Apart from the merits of the GSP program itself, any action taken with respect to the existing level of benefits should be done with the full awareness of the severe impact any changes will have on beneficiary countries—especially at a time of increasing debt burdens and decreasing hard currency earnings.

X. CONCLUSION

For the foregoing reasons, the BOFT urges that the GSP program be renewed for another ten-year period, and that further severe restrictions on the program would be unwarranted by past experience and would undermine the very objectives of the program.

TABLE I.—U.S. EXPORTS TO THE ROC, 1976–82

[In millions of U.S. dollars]

	Value	Index, 1976 = 100
Year:		
1976	1,635	100
1977	1,798	110
1978	2,340	143
1979	3,271	200
1980	4,337	265
1981	4,305	263
1982	4,367	267

TABLE II.—ROC PROCUREMENTS MISSIONS TO THE UNITED STATES, 1978–82

[In millions of U.S. dollars]

Mission/date	By commodity		Total
	Agricultural	Industrial	
1st—January 10, 1978	200.0	68.8	268.8
2d—June 9, 1978	314.5	472.3	786.8
3d—November 6, 1978	360.8	145.2	506.0
4th—June 27, 1979	341.8	600.1	941.9
5th—March 14, 1980	468.0	1,324.0	1,792.0
6th—March 27, 1981	482.6	594.6	1,077.2
7th—August 29, 1982	500.7	69.1	569.8
Totals	2,668.4	3,274.1	5,942.5

TABLE III.—INDICES: ROC TOTAL, GSP ¹ AND NON-GSP EXPORT GROWTH

[1976 = 100]

Year:	Exports to the United States		
	Total ROC	ROC GSP	ROC non-GSP
1976	100	100	100
1977	123	128	121
1978	173	189	164
1979	198	239	176
1980	230	279	203
1981	270	358	222
1982	299	406	240

¹ GSP-eligible.

TABLE IV.—HISTORY OF PETITIONS FILED IN GSP ANNUAL PRODUCT REVIEWS, 1980-82

Year:	Total petitions accepted for consideration ¹	Total accepted petitions involving ROC products	Total products graduated	Total ROC products graduated	Percent B/A	Percent D/C
	(A)	(B)	(C)	(D)		
1980	8	2	2	0	25	0
1981	18	8	7	5	44	71
1982	17	6	11	² 4	35	66
Total	43	16	20	9		

¹ This includes petitions to remove products completely from GSP eligibility as well as petitions to remove country-specific products.² One of the petitions filed to graduate an ROC product became moot when ROC imports in that item exceeded competitive need limits.

TABLE V.—HISTORY OF PRODUCT GRADUATION THROUGH FAILURE TO REDESIGNATE ROC PRODUCTS AS ELIGIBLE

Year:	Total number items eligible for redesignation	Total number ROC items eligible for redesignation	Total no items graduated instead of redesignated	Total number ROC items graduated instead of redesignated	Percent C/A	Percent D/C	Percent D/B
	(A)	(B)	(C)	(D)			
1980	53	7	21	4	40	19	57
1981	74	17	39	9	53	23	53
1982	99	27	58	24	59	41	89
Total	226	51	118	37	52	31	72

TABLE VI.—VALUE OF TRADE AFFECTED BY REDESIGNATION GRADUATIONS

[In millions of U.S. dollars]

	Total trade eligible for redesignation	Total ROC trade eligible for redesignation	Total trade graduated	Total ROC trade graduated	Percent C/A	Percent D/C	Percent D/B
	(A)	(B)	(C)	(D)			
Year:							
1980	507.0	76.3	355.5	68.6	70	19	90
1981	810.0	192.8	597.2	137.3	74	23	71
1982	1,075.8	296.3	805.4	294.9	75	37	100
Total	2,392.8	565.4	1,758.1	500.8	73	28	89

TABLE VII.—TOTAL AND ROC LOSSES TO COMPETITIVE NEED AND DISCRETIONARY GRADUATIONS, 1976-82

[In millions of U.S. dollars]

	Total competitive need and discretionary graduation	ROC competitive need and discretionary graduation	Percent B/A	Total competitive need	ROC competitive need	Percent D/C	Total discretionary graduation	ROC discretionary graduation	Percent F/E
	(A)	(B)		(C)	(D)		(E)	(F)	
Year:									
1976 ¹	1,865	161	9	1,865	161	9			
1977	2,803	341	12	2,803	341	12			
1978	3,217	421	13	3,217	421	13			
1979	3,873	571	15	3,873	571	15			
1980 ²	6,110	973	16	5,600	880	16	510	93	18
1981	7,435	1,739	23	6,782	1,575	23	653	164	25
1982	8,083	2,290	28	7,108	1,937	27	975	353	36

¹ Competitive need exclusions for 1976-79 are values of trade actually denied duty-free treatment in that year because competitive need limits were exceeded in the prior year.

² Competitive need and discretionary graduation exclusions for 1980-82 are measured in terms of the amount of trade that will be affected by exclusions announced in that year but valued in terms of prior year imports.

STATEMENT OF THE CIGAR ASSOCIATION OF AMERICA, INC.

The Cigar Association of America is a non-profit organization representing domestic cigar manufacturers, as well as suppliers, importers and distributors in the cigar business, accounting for more than 90 percent of the large cigars sold at retail in the United States. Large cigars are defined as those weighing more than three pounds per thousand.

GSP eligibility was first extended to wrapper tobacco and certain cigars by Executive Order 12311, effective July 4, 1981. Specifically, the Executive Order covered:

(1) wrapper tobacco under TSUS items 170.10 (unstemmed) and 170.15 (stemmed), and

(2) cigars under TSUS item 170.70 (each valued at 23 cents or over).

The Cigar Association supports renewal of the GSP program for two reasons. First, the program has had a beneficial impact on the economies of the beneficiary developing countries. Second, the program has benefited the U.S. cigar industry in general.

GSP treatment has primarily affected imports of premium cigars. The countries which have gained the most from this are concentrated in this hemisphere, particularly in the Caribbean Basin. In 1982, the first full year of GSP Treatment, cigar imports from GSP countries reached 107.7 million units and \$39 million. In the three calendar years before GSP treatment was granted, cigar imports from GSP

countries averaged 77.2 million units and \$21.9 million per year. This can be seen from the table set forth below which shows that the GSP share of total cigar imports, by quantity, increased from an average of 75.2 percent for the three years prior to the granting of GSP status to 91.8 percent for 1982. In dollars the GSP share rose from 73.4 percent to 96.3 percent.

CIGARS: RATIO OF GSP IMPORTS TO TOTAL IMPORTS FOR CONSUMPTION

[In percent]

	1978	1979	1980	1981 ¹	1982
Units.....	70.4	73.4	81.8	87.4	91.8
Dollars.....	67.6	69.9	82.7	92.2	96.3

¹ GSP in effect from July 4.

Source: U.S. Bureau of Census, IM-145, FT-110 and FT-135.

To a large extent the growth in cigar imports from GSP countries represents a shift of production from Spain—that is, the Canary Islands—rather than from the United States. We do not know to what extent that shift was caused by GSP treatment, but we can say with confidence that it was an important contributing factor. The result has been expanded investment, employment, foreign exchange earnings and diversification in GSP supplying countries—particularly in the Caribbean Basin.

In the case of wrapper tobacco, most GSP imports come from Central America, Cameroon and the Central African Republic. The extension of GSP treatment has apparently not stimulated increased imports of wrapper for the simple reason that in order to reduce costs U.S. cigar manufacturers have substituted manufactured sheet tobacco for natural leaf in certain types of cigars. However, wrapper is still used by U.S. makers of premium cigars. GSP treatment for wrapper is very important to these manufacturers, who are predominantly located around Tampa, Florida, because it permits them to maintain their competitive position vis-a-vis imported premium cigars which benefit from GSP treatment.

Turning now to the U.S. cigar industry, our industry has been in decline for approximately the last 20 years, during which time sales have dropped by about 60 percent. However, due in part to the increasing median age of our population and rationalization within the industry, we are optimistic about the future.

Today, very little tobacco grown in the U.S. is cigar-type tobacco. Most cigars manufactured domestically consist of a blend of various imported filler and scrap tobaccos. The wrapper consists of imported or domestic wrapper tobacco or manufactured sheet tobacco.

A large proportion of the cigars imported with the benefit of GSP status are manufactured in off-shore operations owned by U.S.-based companies. Moreover, since GSP treatment also applies to the most costly raw material in cigar manufacturing, that is, the wrapper tobacco, the program has had the effect of lowering the cost of manufacturing cigars in the United States where imported wrappers are used. The effect on the members of the Cigar Association has generally been favorable, since the duty rates for premium cigars and wrapper tobacco are relatively high and since the cigar industry has been through a period of decreased consumption. On that basis the Cigar Association strongly supports extension of the Generalized System of Preferences.

STATEMENT OF LESLIE A. GLICK, COUNSEL, ON BEHALF OF CONSEJO NACIONAL DE COMERCIO EXTERIOR DEL NORESTE A.C.

Mr. CHAIRMAN: This statement is submitted on behalf of the Consejo Nacional de Comercio Exterior del Noreste A.C. (CONACEX Noreste) in support of an extension of the Generalized System of Preferences (GSP) program for another ten (10) years. CONACEX Noreste is a trade association of Mexican exporters and importers in northern Mexico. Many of these firms are affected by the U.S. GSP program. CONACEX Noreste members are very concerned about the vital necessity to continue the GSP program. It was in Cancun, Mexico at the International Meeting on Cooperation and Development in October 1981 that President Reagan endorsed an extension of GSP. We are concerned over proposals to limit the benefits of the program in the future, particularly through the concept of graduation.

We understand that at present the U.S. Government implements the concept of graduation by removing individual countries from GSP eligibility of particular products when that country is supposedly "competitive" in the product. This graduation program is aimed at so-called advanced developing countries which the U.S. considers to include Mexico. We feel graduation is not a prudent policy, in particular, applied to Mexico, and oppose any formalization of this policy as proposed in Section 2 of the Administration's bill. GSP, unlike other trade laws, is primarily a program designed to provide economic assistance to less developed nations. It has worked well, and Mexico has benefited. We feel it is not logical that when a program is achieving the purposes for which it is designed that the benefits should be discontinued or limited. There are several reasons for this. The first is that the category "advanced developing country" is too broad when countries like Taiwan and Mexico are grouped together. An analysis of the percentage of GSP benefits received, in the President's five year report to Congress, shows that Mexico's benefits were only a small portion of those received by Taiwan.

It is important to remember the fragility of Mexico's economy at this point in time. The fall in oil prices, Mexico's largest source of export exchange, currency controls, and inflation have greatly changed Mexico's economic outlook in the past year. Mexico's foreign debt is a major burden to the survival of its economy. Restructuring of loans has only postponed this debt, not decreased it. In fact, the terms of the restructuring have actually increased Mexico's long term debt. It is only through increased exports that Mexico can hope to turn its economic situation around. The U.S. Generalized System of Preferences is one of the major vehicles that assist Mexican exporters in participating in the U.S. market. This problem seems to be recognized in Section 1(b)(6) of the proposed Administration bill that states that among the purposes of the Act is "to recognize that a large number of developing countries must generate sufficient foreign exchange earnings to meet international debt obligations". However, this purpose is not carried out and is indeed contradicted by the proposed portion of the bill which institutionalizes the concept of graduation which, when applied to countries like Mexico and Brazil, greatly impairs their ability to meet international obligations. To penalize Mexico now by artificially grouping it with other so-called advanced developing countries like Korea, Taiwan and Hong Kong is both unfair and inconsistent with the realities of the marketplace.

If Mexico's survival as an ally and trading partner is important to the U.S., its current economic problems must be recognized and dealt with. There appears to be a great interest in the U.S. in the stability of Central America and Mexico from a political and military viewpoint, but little interest in helping Mexico's economic system through trade-related measures. In the case of GSP, we are not asking for new benefits, but only that the program not be made more restrictive as to Mexico than it was at its inception in 1975.

A second reason graduation is not a rational policy is that it penalizes those countries most able to take advantage of the desired intent of the GSP program without really helping the very least developed countries. The benefits taken away from Mexican producers are not likely to be conferred instead on producers in Haiti or Belize, because these countries just don't have sufficient export products to take any greater advantage of GSP than they are now. Graduation benefits only one party—U.S. Customs, which collects revenues. Graduation hurts the GSP beneficiary countries the program was designed to assist, without helping the most needy countries that have limited capacity to export. Moreover, many of these countries, unlike Mexico, are included in the proposed Caribbean Basin Initiative which will, if enacted, confer a twelve (12) year, super GSP program on these countries without the limitations and restrictions imposed on countries like Mexico. This is a much more positive and constructive approach than graduation to redistributing benefits. This same rationale applies to the proposal to impose a lower competitive need test (25 percent and 25 million dollars) on the allegedly "more competitive products" from certain countries. This is just another method of graduation that is certain to be directed towards Mexico and would reduce Mexico's benefits without assisting the least developed countries. These least developed countries will be benefited by removing them from the competitive need test as proposed in Section Five of the Administration's bill and restricting benefits to Mexico is not necessary to achieve this purpose.

Finally, we would like to see certain changes in the mechanics of the GSP program. These include earlier and more frequent availability of data on the likelihood of a product exceeding competitive need limitations; the automatic return to GSP status of a product that has not exceeded competitive need limitations for the previous year without application of graduation principles to these products or requiring

a new petition; and better and more thorough explanations of why petitions are accepted and rejected including publicly available transcripts of the meetings of the Trade Policy Staff Committee and GSP Subcommittee. Much of this was recommended in the General Accounting Study of the GSP program but never implemented by U.S.T.R.

In conclusion, we support an extension of the GSP program for another ten (10) years, but without the ill-considered and inequitable concept of graduation, and with efforts to make the program easier and less expensive to use.

STATEMENT OF CONTINENTAL GRAIN CO.

Continental Grain Company is a major exporter of U.S. grains, oilseeds and products from the Great Lakes, Pacific, Gulf and Atlantic Coasts to all markets in the world. Continental employs nearly 3,000 United States workers in its grain handling operations, including oilseeds and products.

The Generalized System of Preferences (GSP) has been an important part of United States trade policy of allowing developing countries to increase their exports to the United States market, and has earned them dollars needed to purchase grain, oilseeds and other farm products from the United States. Developing country markets have been increasingly important for American farm exports since they have taken up to one-third of our total exports of agricultural products in the last two years.

Israel, for example, is one country that has gained benefits from GSP. In 1981, Israel sold \$339 million worth of GSP products to the U.S. In that same year, Israel purchased \$324 million worth of agricultural products from the U.S., of which \$180 million was grain. This is just for agricultural products. Total U.S. exports to Israel well exceed \$2 billion a year.

In short, GSP does not really appear to be injuring the U.S. economy or exporting jobs abroad overall. Trade is a two-way street. Only 3 percent of all imports into the U.S. are under GSP. To again use Israel as an example, imports under GSP from Israel are only about 0.1 percent of all imports into the U.S. If any jobs are lost to GSP countries—and it is doubtful that there are jobs lost on any significant basis—such job losses are more than offset by jobs gained from exporting more to developing countries than otherwise would be the case.

Developing countries should not be "graduated" out of GSP status unless they have truly progressed out of developing country status. To do otherwise would be simply to condemn developing countries to a longer, more protracted period of development, if not to halt or reverse development altogether. Criteria used to measure any country's development status should be as broad in scope as possible, and not simply the extent to which the country has used GSP coverage on its overall exports to the U.S. On the contrary, it can be argued that a developing country that qualifies and uses GSP for large proportion of its total exports to the U.S. shows a substantial need for GSP in its development process.

In addition to the general economic measurements of development that are used to classify countries as developed or still developing, such as per-capita gross domestic product, the U.S. should also consider the following:

(A) The balance of trade and balance of payments of the country. Does it have a deficit? Does it have a deficit with the U.S.?

(B) The needs of the country for foreign exchange. Does it have a large debt? Is it required to purchase large amounts of goods from the U.S.?

(C) The defense needs of the country. Is it required to be in a constant state of preparedness?

(D) Its lack of natural resources. Does it lack petroleum reserves, a good climate, etc.?

(E) Its political, strategic and diplomatic importance to the U.S. Is it a major ally?

In conclusion, we wish to express our continued support of the Generalized System of Preferences in tariff treatment of developing countries by the U.S., as well as by our major industrialized trading partners. GSP should be renewed and there appear to be few, if any, countries presently benefitting from GSP that should be denied GSP treatment in the renewal period ahead. GSP not only benefits developing country economies, but in so doing it also benefits U.S. exports, and not least U.S. agricultural exports.

STATEMENT OF RONALD M. ANSIN, ANWELT CORP., ON BEHALF OF THE FOOTWEAR INDUSTRIES OF AMERICA, INC.

INTRODUCTION

Good Morning. My name is Ron Ansin. I own four shoe factories in New England: Anwelt Corporation in Fitchburg, MA manufactures outdoor boots and workshoes under our own brand names "American Footwear" and "American Country" and under private labels for other distributors and retailers; Ansewn Shoe Company, Bangor, ME makes high quality, handsewn loafers and casual footwear for Cole-Haan, Bally, Bass, Johnston & Murphy and for export under our "American Footwear" brand; L.B. Evans' Sons Co., with factories in Wakefield, MA and Hampden, ME has been making Evans slippers since 1841—the oldest men's shoe manufacturer in the United States.

In total we employ 600 people in these four factories.

I am here today on behalf of Footwear Industries of America, Inc. the trade association representing domestic manufacturers of non-rubber footwear and suppliers to the footwear industry. I am Chairman of the National Affairs Committee and a member of both the Executive Committee and the Board of Directors. I have also served as Chairman of the Export Opportunities Committee of the Association and currently serve on the Industry Sector Advisory Committee for footwear, leather and leather products (ISAC #8).

FIA is composed of approximately 180 manufacturers and suppliers, representing over 65% of domestic production of non-rubber footwear. FIA is the successor organization to the American Footwear Industries Association and the American Shoe Center, the later established in part through government funding. FIA works actively with the industry in providing the important and necessary technical skills to increase the industry's productivity and to improve its competitiveness in world markets. This is done through our four divisions: Marketing, Technology, Finance/Management and National Affairs. Our association is a member-guided association, with steering committees providing direction and resources to those areas where our industry feels the greatest needs.

In the next few minutes I would like to give you an overview of the footwear industry and address some of the issues relating to the extension of the Generalized System of Preferences Program.

BACKGROUND OF FOOTWEAR UNDER GSP

Our industry recognizes the need to promote economic and political stability in developing nations by assuming some depth of economic support through the GSP program. We are also mindful, however, that great harm can be done to domestic industries without proper implementation of this delicate program. For that reason, we believe that the footwear exclusion from GSP should be included in the Administration's GSP reauthorization proposal to Congress.

It is clear from a reading of the legislative history of this program during the consideration of the Trade Act of 1974 that it was the intention of both the Administration and the Congress to exempt footwear for the GSP program.

In 1973, President Nixon, in his message to Congress transmitting the Trade Reform Act of 1973 said of the Generalized Tariff Preferences section, "It is our intention to exclude certain import-sensitive products such as textile products, footwear . . . from such preferential treatment, long with products which are now subject to outstanding orders restricting imports."

In 1974, during the final days of debate on the Trade Act of 1974, the Senate agreed to an amendment offered by Senator Pastore of Rhode Island which, he said, "codifies into law a commitment made by the administration with reference to certain exclusions from generalized systems." Specifically, his amendment (number 2044) stated: "The President may not designate any article as an eligible article under subsection (a) if such article is within one of the following categories of import sensitive articles: . . . (E) footwear (sic) articles . . .". Senator Pastore then read a letter to Senator Russell Long, Chairman of the Senate Finance Committee, from W.D. Eberle, the Special Trade Representative which states, "In response to questions concerning this Administration's commitment to such exclusions, I reaffirm the intention of the Executive Branch to exclude from tariff preferences textile and apparel products which are subject to textile agreements, footwear products . . . and other items which may be considered import-sensitive in the context of generalized preferences." Thus, it was the intention of the Administration to exclude footwear from the GSP program from the outset. To further insure such ex-

clusion, both Houses of Congress passed the Trade Act of 1974 with this specific language.

CURRENT SITUATION

The conditions that warranted footwear's exclusion in 1974 continue to exist today. In fact, the industry is in much greater danger today than it was 8 years ago as a result of ever increasing imports.

Footwear production is characterized by low capital requirements and labor intensity. Our machinery is easily transportable. We are virtually an industry on wheels. The ease of entry into footwear production makes it a primary target to newly industrializing countries. Tremendous competitive pressure has been created in the world footwear market in the last decade as a result of the development of production and capacity in numerous developing and developed countries far beyond the needs of their domestic markets. Most of these countries have simultaneously built a variety of tariff and non-tariff barriers to protect domestic footwear industries. Today the U.S. stands virtually alone as a major producing or consuming country with no barriers to footwear imports, other than modest tariffs. As a result, the U.S. market has become the focal point for world trade in non-rubber footwear.

Indeed the import figures for the U.S. reflect this openness. Imports of non-rubber footwear began to enter the U.S. in substantial numbers in the late 60's, with the trend escalating significantly between 1974-1977 and since 1981. While imports enjoyed only 12 percent of the U.S. market in 1965, they aggressively captured 37 percent in 1974, when Congress wisely excluded footwear from the GSP program. Today, imports dominate over 60 percent of the U.S. market.

Mr. Chairman, this clearly indicates that footwear is an extremely import sensitive industry, and that it continues to be severely threatened by high levels of imports. In the mid-seventies, the International Trade Commission twice unanimously determined that imports seriously injured the domestic footwear industry. Following the second injury finding, import relief was granted to the industry in June of 1977, in the form of Orderly Marketing Agreements, negotiated with Taiwan and Korea, to limit imports from those two sources for four years. Again in April, 1981, the ITC concluded that footwear imports continued to injure the domestic industry and recommended extension of import quotas on footwear from Taiwan, the largest single supplier. The ITC further recommended that action be taken against surges from other countries whose imports undermined the import relief program and threatened the domestic industry. On June 30, 1981, despite these findings, President Reagan terminated the OMA's.

Import penetration of the U.S. market surged from the 50 percent level during the OMA period to over 60 percent in less than a year. In 1982, production dropped by 15 percent; the unemployment rate in the industry was 19.4 percent; we suffered a loss of 14,000 jobs, with those still employed working short days and short weeks.

Just last year, the House of Representatives and the Senate Finance Committee excluded footwear from the duty-free provisions of the Caribbean Basin Initiative during its consideration in the last Congress. We are pleased that the Administration, in its newest version of the legislation, has also seen fit to exclude footwear. Clearly, if footwear is to be excluded from even the duty-free provisions of the CBI, footwear should continue to be excluded from the duty-free provisions of GSP.

FOOTWEAR IMPORTS AND GSP

Footwear is a highly priced sensitive product. The level of competition in world footwear trade is quite extraordinary, and therefore even the modest tariffs placed on footwear entering the U.S. market can have a significant impact on a country's exports to this market. Over the years, we have seen case after case where a product's composition has been changed to get around the tariff schedules. The U.S. Customs Service can attest that, on a daily basis, American importers are searching for rulings on possible tariff classifications depending upon the constituent materials in imported footwear in order to obtain the lowest possible duties. Some recent examples that come to mind occur in the treatment of espadrilles and certain joggers with leather uppers. In the former case, importers are now placing a thin coating of leather on the sole to avoid the higher tariff on fabric upper/plastic soled footwear. The difference in the tariffs is substantial enough to change the price of competitiveness of this product. With joggers, by arguing about the percent of leather vs. textile or plastic/rubber, importers face either 8.5 percent, 10 percent or 12.5 percent duties. They are arguing strenuously for the 8.5 percent duty.

U.S. footwear tariffs are among the lowest in the world, ranging from 0-20 percent ad valorem, with a trade weighted average of less than 10 percent. In compari-

son, Canadian duties for countries with MFN status range from 22½ percent to 25 percent ad valorem; Mexico 34 percent plus surcharges and taxes; Spain 21-28 percent ad valorem; Brazil 170 percent; Taiwan 45-60 percent and Korea 50 percent plus unusually high customs and deposit taxes. These high duty rates actually bar the importation of footwear into these countries because of the price sensitivity and competitiveness of the industry. It would not make sense to the domestic industry to lower our tariffs when they are already among the lowest in the world and, as noted above, are not reciprocated in any major way with our major trading partners.

Mr. Chairman, I would like to highlight briefly for the committee what percentage of U.S. imports come from GSP eligible countries, and why any change in duty would further harm the U.S. footwear industry.

In 1974, when the GSP legislation first passed, imports totaled 266 million pairs; 53 percent of total imports came from GSP-eligible countries. Total non-rubber imports in 1982 reached record levels of 480 million pairs; approximately 80 percent of all footwear imports came from these countries. (In this time of budget deficits, it is also worth noting that the annual duties collected on this footwear from GSP-eligible countries amounts to approximately \$190 million.) In dollar terms, 1982 imports were valued at \$3.1 billion, with GSP countries accounting for \$2 billion. The U.S. market has already been decimated by imports from the lesser developed nations and certainly, in our opinion, the U.S. government should do nothing to encourage further import penetration.

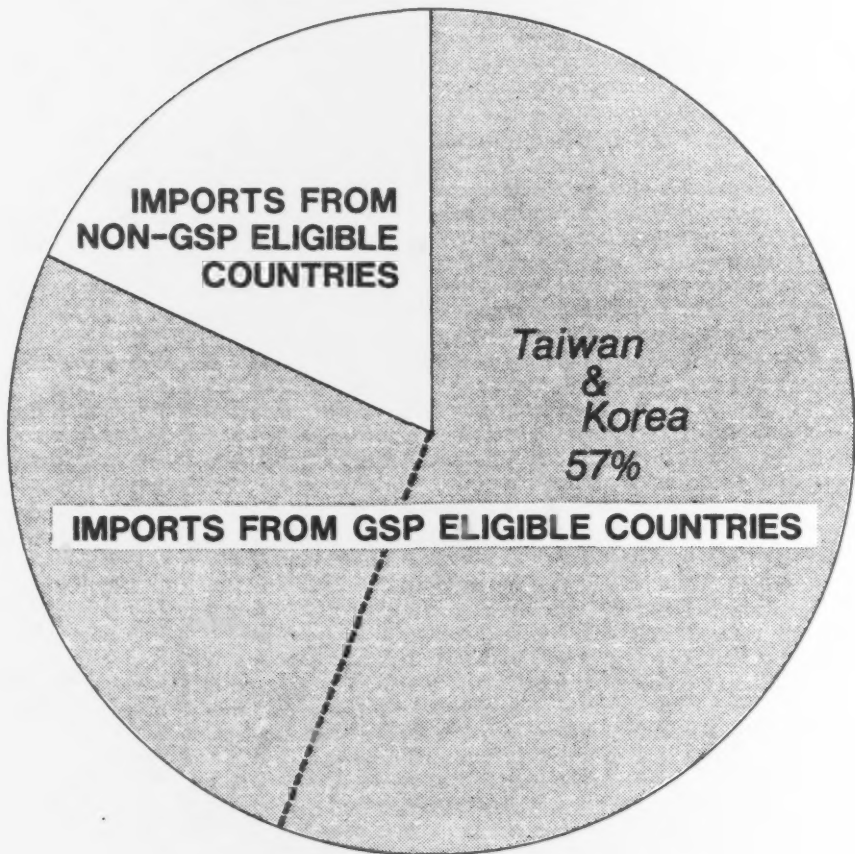
Assuming for a moment that footwear was placed on the GSP list, what further harm do we see? First of all, four of the major beneficiaries of GSP (Taiwan, Korea, Brazil and Hong Kong) are all major exporters of footwear to the U.S. market. Although these beneficiaries each export to the U.S. in excess of the \$53 million GSP limit with respect to *all* footwear, the GSP program is operated on the basis of individual tariff schedule numbers. Thus, while certain individual types of footwear from these major exporters would probably not receive the GSP benefits either because of the percent of imports or dollar amount limits, or both, a great portion of footwear imports from these major suppliers could be eligible for GSP. Even if the major countries are graduated from GSP with respect to footwear, that still does not meet our concerns. Equally important are the approximately 50 other lesser developed countries which already export to the U.S. which could be eligible, not even counting new entrants. Our experience has shown that these other countries can greatly increase their exports to the U.S. in a relatively short period of time. For example: Imports from Singapore grew from 670 pairs in 1977 to 5.6 million pairs in 1979; imports from the Philippines rose from 620,000 pairs in 1977 to 14.3 million pairs in 1980; between 1977 and 1981, imports from Thailand grew from 120,000 pairs to 5.8 million pairs; Before political problems disrupted its industry, imports from El Salvador rose from a mere 13,000 pairs in 1977 to 3.4 million pairs in 1979.

We would assert that the same reasons which caused the Congress and now the Administration to exclude footwear from the duty-free provisions of the CBI apply here. It is a fact that developing countries can and do dramatically increase production of footwear in a relatively short period of time. This, combined with the fact that the U.S. market is virtually the only open market in the world, could result in a new onslaught of duty-free shoes arriving at our borders within a very short period of time.

CONCLUSION

In conclusion, the domestic non-rubber footwear industry believes the case is strong for continued exclusion of footwear from the GSP Program. The conditions that warranted Congress and the Administration to exclude our products in 1974 are dramatically worse today. The industry has worked long and hard at increasing productivity and competitiveness in the world market in the face of continued protective policies in the part of most foreign governments. Any effort to include footwear in the GSP Program would only serve as another devastating blow to our industry. We urge this Administration to continue this exclusion and by doing so send a modest signal to our trading partners that this industry has the support of the U.S. Government.

1982 Total Imports Nonrubber Footwear



KEY POINTS:

80% of all footwear imports come from GSP - eligible countries

57% of all imports come from Taiwan and Korea

STATEMENT OF THE HEADWEAR INSTITUTE OF AMERICA AND THE AMALGAMATED
CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO

The following statement presents the views of the workers and firms of the U.S. headwear industry on renewal of the Generalized System of Preferences (GSP) and recommended revisions in the program. Specific comments of the industry on the renewal legislation proposed by the Administration are also provided. The statement is submitted on behalf of the Headwear Institute of America (HIA) and the Amalgamated Clothing and Textile Workers Union, AFL-CIO (ACTWU). The HIA is a trade association whose members account for the majority of domestic production of headwear. The ACTWU has a membership of more than 500,000 workers, who include thousands of employees engaged in the production of headwear.

As an indication of the import sensitive nature of the hat and cap industry, all cotton, wool and man-made fiber headwear imports are covered under the Multifiber Arrangement (MFA), and are thus exempt from inclusion in the list of GSP-eligible articles, as provided in Section 503(c)(1)(A) of the Trade Act of 1974. Cotton, wool, and man-made fiber headwear imports in 1982 amounted to 8.9 million dozen and accounted for 54 percent of the total quantity of headwear imports in 1982.

Despite this recognition in the statute of the import sensitivity of the headwear industry, all headwear other than cotton, wool, and man-made fiber headwear covered by the MFA are currently on the list of GSP-eligible items. This wide range of headwear enters the United States under thirty-one separate TSUS items. Imports of GSP-eligible headwear reached 7.7 million dozen in 1982 and accounted for 46 percent of total headwear imports.

The position of the American headwear industry on the GSP issues being considered by the Subcommittee can be summarized in three basic points.

First, the industry cannot understand, accept, or find any justification for maintaining the difference in GSP treatment of headwear made from cotton, wool, and man-made fiber as opposed to other types of headwear which also compete directly with U.S.-produced headwear. There is no rational basis for this differential treatment for many types of headwear from the point of view of either the market impact of imports or the production process.

Domestic production of headwear of such materials as straw and leather is just as import sensitive and experiences the same problems of market disruption from imports as headwear made from cotton, wool, or man-made fiber. Many of the GSP-eligible headwear articles even compete directly with non-GSP eligible articles in the market. Indeed, many types of GSP-eligible headwear are made on the same equipment, using the same production techniques and same work force as GSP-exempt headwear. Thus, the industry believes that the differential treatment of different types of headwear under the GSP program should be changed and that headwear imports that compete with U.S. production should be exempt from GSP duty-free treatment.

To this end, the industry proposes that Section 503(c)(1) of the Trade Act of 1974 be amended to include the following category of articles which the President may not designate as an eligible article under Section 503(a):

(H) any article that is similar in use and in the method of its manufacture with any article not designated as an eligible article under section 503(c)(1)(A).

Second, the industry finds no basis for continuing to provide GSP benefits to a number of advanced developing countries. Countries such as Taiwan and Korea have large, modern, well-developed headwear industries which are fully competitive with the U.S. industry. Massive and growing quantities of imports already enter the U.S. market from these countries, imports which have caused injury to American workers and firms and disruption to U.S. markets.

These countries have no need whatsoever for the additional benefits accorded by GSP. This reality is most clearly evident by the fact that Taiwan and Korea, two of the most advanced developing countries, account for huge and growing quantities of U.S. imports of cotton and man-made headwear, headwear which is not even eligible for GSP benefits. For example, between 1976 and 1982 combined imports of man-made fiber headwear from Korea and Taiwan rose from 1.3 million dozen to 5.6 million dozen, capturing a huge share of the U.S. market in the process. Thus, in 1982 alone more than 67 million items of headwear of man-made fiber entered the U.S. from Taiwan and Korea. These two countries alone account for 84 percent of total imports of this type of headwear.

This is but one example of the tremendous capacity and level of development of the headwear industries in these countries and the success they have had even without GSP benefits. This reflects the ability of such advanced developing countries to dominate foreign supply of headwear to the U.S. market to such an extent that they

preclude other less developed and more needy countries from obtaining the trade benefits which the GSP program was designed to offer. The continuation of GSP benefits for rapidly industrializing developing countries with highly competitive headwear industries does a disservice both to the domestic industry and to the most needy foreign countries.

Third, the headwear industry finds the Administration's proposed legislation to renew the GSP program wholly unacceptable, and far worse than even the current program. The domestic headwear industry has already experienced first-hand the excessive discretion already in the hands of the Executive Branch, the excessively time-consuming and expensive procedures that are involved in attempting to remove an article from the GSP-eligible list, and the unwillingness of the Executive Branch to remove any article from the list. The industry spent more than a year and a half attempting to remove sewn straw headwear from the list of GSP eligible items. Total imports of these items rose from 58,160 dozen in 1976 to 120,823 dozen in 1981, while imports entering duty-free under GSP surged from 10,194 dozen in 1976 to 76,097 dozen in 1981. This import surge caused substantial injury to domestic manufacturers.

The domestic industry filed a petition in June 1981 and presented its case before the GSP Subcommittee of the Trade Policy Staff Committee in September 1981. Unable to make a decision, on February 26, 1982 the Office of the United States Trade Representative (USTR) requested the U.S. International Trade Commission to provide advice on the issue, which caused considerable delay. The ITC was not able to hold a hearing until July 1982, and the ITC's final report was not released until November 1982, nearly a year and a half after the petition was initially brought before the USTR and long after the import surge had affected the domestic industry.

Because of the strong fashion element of demand for headwear, the life cycle of demand for many types of headwear is relatively short. By the time USTR was prepared to make a decision, demand for the product at issue had virtually disappeared, and the injurious impact of duty-free imports had long since taken place.

Currently, there are competitive need limitations on both the absolute value of imports allowed from each country and the percent of total imports beyond which any one country is no longer eligible for GSP benefits. These competitive need limitations of \$53.3 million and 50 percent of total imports, respectively, have been far too high, particularly with respect to low unit value consumer products, such as headwear. Imports of \$53.3 million of any kind of headwear represents a tremendous loss of sales, production, and employment in the domestic industry.

Rather than making these competitive need limits more restrictive, at least for the more advanced developing countries, the industry understands that the President is seeking authority to waive completely the competitive need limitations if it is in the "national economic interest of the United States," and if the "country has assured the U.S. that it will provide equitable and reasonable access" to their markets.

The Administration's proposal places far too much discretion in the hands of the President for the maintenance and liberalization of GSP benefits. The Administration clearly intends to use GSP as a negotiating tool to persuade developing countries to open their markets in turn for preferential treatment. This arrangement can only be at the expense of the U.S. import-sensitive industries, as well as at the expense of the less developing countries most in need of preferential treatment. Indeed, this approach can only enhance the position of the advanced developing countries.

Equally troublesome is the prospect that import sensitive industries such as the headwear industry may be even more fully exposed to duty-free imports by the U.S. Government merely on the basis of idle fantasies about other developing countries opening their markets. The more advanced developing countries such as Mexico, Brazil, Taiwan, and Korea have had and continue to maintain among the most protected, closed markets in the world. Indeed, in the case of Mexico and Brazil, these practices are now being given the blessing of the U.S. Government because of the financial problems these countries are experiencing.

A serious question arises as to exactly what assurances of market access will be acceptable to the U.S. in order to justify maintaining or even liberalizing GSP benefits under the proposed legislation.

There is little evidence to suggest that developing countries will give more than lip service to opening up their markets or that the U.S. will insist on any real improvements. Indeed, the historical willingness of the U.S. trade policy makers to "give away the store" to foreign countries with little concern for the impact on

American workers and firms gives no grounds for confidence that the proposed legislation will be anything less than a disaster for import-sensitive industries.

Any renewal authority must, without discretion, absolutely reduce the level of benefits, especially for the advanced developing countries. This is particularly important given the demonstrated unwillingness of the Executive Branch since the beginning of the program to exempt products from the list of GSP-eligible articles, regardless of the import sensitivity of the industry. The headwear industry has experienced this unwillingness first-hand as described above, and believes it is wholly improper for the U.S. government to treat American firms and workers as second class citizens compared to foreign interests when it comes to providing or withdrawing extra, preferential trade concessions above and beyond those negotiated through GATT.

STATEMENT OF WILBUR DANIELS, EXECUTIVE VICE PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION (AFL-CIO)

This written statement is filed in lieu of personal appearance by the International Ladies' Garment Workers' Union, AFL-CIO (hereafter referred to as ILGWU). The ILGWU is a labor organization whose members produce a wide variety of articles of wearing apparel. ILGWU members are, therefore, directly affected by imports of wearing apparel and accessories because their job opportunities and the employment levels in the industry are directly affected by such imports.

In our considered opinion, the Generalized System of Preferences (hereafter referred to as GSP) should be permitted to lapse on January 2, 1985. GSP is both unnecessary and harmful to the economy of the United States. Imported goods entering the United States duty free from the beneficiary countries that take advantage of the GSP compete directly with U.S. firms and their employees engaged in similar domestic production. We are in full accord with the views and data presented orally to your Subcommittee on behalf of the AFL-CIO and on behalf of the Amalgamated Clothing and Textile Workers' Union. Therefore, we are not spelling out this line of argument more fully.

Although we strongly recommend that GSP be permitted to lapse on January 2, 1985, we believe it necessary to examine continued denial of GSP status to cotton, wool and man-made fiber apparel and wish to call attention to the need to broaden the apparel exclusion.

Section 503(c) of the Trade Act of 1974 provides that the President may not designate an article for GSP status in it is import-sensitive. The Act specifically deems "textile and apparel articles which are subject to textile agreements" to be import-sensitive. In addition, this statute specifically provides in the same section that "any other article which the President determines to be import-sensitive" shall also be denied GSP designation.

Apparel and textile articles continue to be import-sensitive and, as such, should be excluded from duty-free status in all circumstances. If anything, their import sensitivity has significantly increased with the passage of time. In 1974, when the Trade act was under consideration, the ILGWU Research Department estimated that imports accounted for 27.7 percent of domestic apparel production and 21.7 percent of domestic apparel consumption. In the wake of the subsequent dramatic increase in the level of apparel imports, the domestic situation has materially worsened. In 1982, apparel imports equaled 69.1 percent of U.S. production and 41.6 percent of domestic consumption.

Substantial increases have taken place in imports of cotton, wool and man-made fiber apparel products covered by the terms of the Multifiber Textile Arrangement (MFA) as well as in apparel products not subject to the MFA. Between 1974 and 1982, for example, imports of both advanced by approximately identical percentages. This suggests that the lack of GSP status for apparel products subject to the MFA in no way hampered such exports to this country.

We are aware that requests were made by some developing countries for GSP beneficiary status for apparel products not covered by the MFA and that, in the vast majority of cases, such status was not granted because of the import-sensitive nature of these products. This suggests that, should GSP provisions be retained in the law—an unfortunate development as we view it, exclusion from GSP should be extended to all apparel products, irrespective of the material from which they are produced. This is essential in view of the wide interchangeability of all types of apparel.

Depending upon fashion developments or swings in consumer preferences, different apparel products are typically made in the same factories, by the same workers

and are distributed by the same wholesalers and retailers, and in the same type of outlets. Irrespective of the material from which they are made, all of these garments compete with each other and are import-sensitive. They should not be subject to different treatment under the provisions of the Trade act.

Many years of experience demonstrate that developing nations and areas dominate international trade in apparel. This is the case even though under the provisions of the existing law, they do not qualify for beneficiary status under the GSP. Examination of the historical data also shows that growth in apparel imports has not been negatively affected by prevailing U.S. tariffs. This situation existed prior to the tariff cutbacks incorporated, or scheduled to be incorporated, as a result of the recent "Tokyo Round" of multinational trade negotiations.

As the level of apparel imports has continued to rise since GSP was first considered in 1974, employment of production workers in the apparel industry and man-hours of work have dropped significantly. Between 1974 and 1982, employment of production workers in U.S. apparel manufacturing declined by about 201,000 while annual manhours of work fell by 384 million.

The import sensitivity of apparel is fully demonstrated by the evidence presented here that foreign-made apparel has displaced a significantly large share of domestic output and employment.

This development underlines our view that GSP could lapse without any negative impact on opportunities for lesser developed areas of the world to export their products to the U.S. Their significantly low wage standards, even if one were to assume differences in physical productivity between the United States and such areas, give them a distinct and a significant advantage. No special compensatory action is needed, including the removal of existing tariffs on their shipments to this country. Should an unfortunate political decision be made to extend GSP beyond its present expiration date, however, we hope that the following significant changes be made:

a. The existing prohibition against grants of duty-free status to textile and apparel products should be broadened to apply to all textiles and apparel products, whether or not they are covered by the MFA.

b. At a bare minimum, the amended GSP should provide that beneficiary countries under GSP be limited to the bona fide lesser developed countries to qualify. This proposal should exclude the newly-industrialized countries that have to date been its main beneficiaries and all Communist economies.

c. No country should be granted GSP benefits for any product sector (which corresponds to a two-digit standard industrial classification in use in the United States) if its exports in that sector to the United States exceeded \$1,000,000 in the year. Such a provision would tend to eliminate beneficiary GSP treatment to the newly industrialized areas, while concentrating GSP eligibility on truly developing areas.

d. Discretionary Presidential authority for the GSP operations should not be broadened or diluted by amendments in regard to Title V of the Trade Act of 1978. In our opinion, beneficiary country status under the GSP should not be utilized as a negotiating tool. The existing statutory language (Sec. 502(c)(4)) specifically requires the President, in determining whether a beneficiary status could be granted to a country, take account of "the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country." This language is sufficient to specify when beneficiary status should be denied to a country. It should not be broadened.

e. Other language in the proposed extension amendment would further undermine the original Congressional intent as well as Congressional oversight of the GSP program. There is no justification for weakening Congressional authority.

McGraw-Hill, Inc.,
Washington, D.C., September 7, 1983.

Hon. SAM GIBBONS,
Chairman, Subcommittee on Trade,
Cannon House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This letter relates to the hearings held on August 3, 1983 regarding the reauthorization of the Generalized System of Preferences. We were unable to testify at that time but we will take this opportunity instead to submit our views for the record, with the hope that our full testimony may be heard, should additional hearings take place in the future.

The purposes of the Generalized System of Preferences are widely recognized and, for the most part, accepted as valuable in assisting the economic development of Less Developed Countries, in liberalizing trade and encouraging the growth of Less Developed Countries, as potential markets for U.S. products.

These are good reasons to continue the GSP. However, in any reauthorization which may take place, we would urge that there be language changes in the law which would seek to rectify the enormous problem faced by U.S. book publishers in many of the LDCs—the illegal reproduction and sale of United States books.

The practice of book piracy is simply one of taking school and college books, usually written by American teachers or professors, making printing plates of the covers and pages, running off copies and selling them direct in a market place, for the most part created by American publishers. The pirated books are most often exact replicas, even to the extent that they carry the American publisher's trademark. In that process, of course, the pirates avoid the investment of thousands of dollars in the preparatory work done by editors, illustrators, production personnel, and finally the sales representatives, who develop and service the market. Obviously, the pirates make no royalty payments to authors.

To assist in rectifying a world-wide problem which deprives American publishers of millions of dollars, we urge that the reauthorization deny GSP benefits to those nations which do not provide adequate and effective means for foreign nationals to secure, exercise and enforce exclusive rights in intellectual property, including copyright rights.

Last year the American Book Publishing Industry exported goods valued at more than 640 million dollars. It can continue to add to the national balance of payments, but that contribution will continue to be diminished by the piracy taking place around the world—most often in the Less Developed Countries. We look to our government for support in the solution of the problem, and we believe that the language which we ask to have included in the GSP reauthorization is entirely equitable. Book piracy is nothing more than the theft of American property. It should be not too much to expect that those nations which benefit from the GSP do their utmost to protect the rights of American companies.

Sincerely,

WILLIAM P. GIGLIO,
Vice President, Washington Affairs.

STATEMENT OF PAUL RADOW, DIRECTOR, METROPOLITAN NEW YORK TRADE
ADJUSTMENT ASSISTANCE CENTER

My name is Paul Radow and I am Director of the Metropolitan New York Trade Adjustment Assistance Center. I am also a project director in the Office of Economic Development of the City of New York. In both capacities, I have worked very closely with the firms and workers in the leather products sector.

Firms and workers in the domestic luggage, handbag, personal leather goods, leather wearing apparel and work glove industries have worked diligently in their efforts to cope with the effect of ever-increasing imports on their industries. Indeed, the luggage, handbag and work glove industries were all found to be import impacted by the U.S. Department of Commerce and all three industries have received grants under the auspices of the Trade Adjustment Assistance program to improve their competitive positions. Moreover, I understand that the personal leather goods industry has recently applied to the U.S. Department of Commerce for a grant under this program as well. While the benefits of this program will be reaped over time, the grants have been important in the short term in helping these industries target needed improvements in marketing, productivity, etc., in much the same fashion that the Trade Adjustment Assistance program has benefitted firms in these industries on an individual basis. These programs should be extended by Congress.

Any legislation to extend the GSP program should exempt these import sensitive leather-related products by name. I can tell you firsthand what devastation has been wrought on these industries by imports. They should not be punished any further by the addition of their products to the Preference list. Surely the import sensitivity of these industries should be recognized by now and their products excluded by law from the GSP as Congress correctly saw fit to do in 1974 for textiles, apparel, and footwear.

STATEMENT OF THE PHARMACEUTICAL MANUFACTURERS ASSOCIATION

The Pharmaceutical Manufacturers Association represents 143 United States pharmaceutical manufacturers, many of which conduct significant business in developing countries.

We are pleased to have this opportunity to submit our comments for the record of the House Ways and Means Subcommittee on Trade's August 3, 1983 hearing on the subject of the possible renewal of the Generalized System of Preferences program.

The Trade Act of 1974 authorized a 10 year program of trade benefits to less developed countries (LDC's) to encourage their economic development. This program, called the U.S. Generalized System of Preferences (GSP), is an exception to the GATT trade and tariff agreements between all major trading countries. It allows for duty free treatment of certain imports from qualifying LDC's while GATT countries pay certain relatively low levels of negotiated duties (most favored nation or MFN rates). Other countries must pay a second and higher level of duties set out in the U.S. tariff schedule.

The country eligibility criteria set forth in the GSP program can be viewed as assessing two factors. Several are intended to assure that candidate countries are in fact "less developed". Other criteria are concerned with whether the countries treat United States' economic interests in a fair and reasonable manner. For example, a country is not eligible if it has failed to accept arbitration awards in favor of U.S. companies or has expropriated U.S.-owned property. The program also requires that, in determining whether to designate a country as a beneficiary, the President must consider whether the country provides equitable and reasonable access to its markets.

The program reputedly has been successful with respect to the more advanced LDC's in its objective of assisting in their economic development. Over the years certain products have been dropped from GSP eligibility for these countries as their economic development continued and their economic competitiveness on specific products improved. This has not prevented advanced LDC's from continuing to benefit significantly from the GSP program.

The latter aspects of the GSP program, trade liberalization and adherence to minimal trade standards, have increased in importance. The advanced LDC's represent a rapidly growing portion of the global market and are increasingly competing with the U.S. in third country markets. Thus, their adherence to basic international standards is important if U.S. companies are to have an opportunity to compete fairly both in their markets and in third country markets.

Of the various items included in the term "minimal trade standards", intellectual property rights—patents, trademarks, trade dress, copyrights, trade secrets—have become increasingly important to U.S. industry in recent years. These rights protect the innovations which are the result of extensive research, development and marketing efforts. As the U.S. economy has moved to higher technology levels, the recognition and protection of these rights overseas has become more important to our ability to maintain and increase our business abroad. Quite probable no industry is as dependent upon intellectual property rights as is the research-based pharmaceutical industry.

In the developed world, U.S. companies have little difficulty securing their patents, trademarks, etc. with local authorities and with enforcing the rights thus obtained. However, in the developing world, an increasingly important market, the rights obtainable are limited; and enforcement is difficult at best. Nowhere is this more apparent or troublesome than in the advanced LDC's, the very countries which benefit the most from the GSP program.

It is our understanding that Taiwan, Korea, Mexico and Brazil have been the leading beneficiaries of the GSP program, cumulatively accounting for 52.4 percent of the total of \$8.4 billion in 1982 GSP imports. Unfortunately, none of these countries provides effective patent protection for pharmaceutical products. In fact, all four specifically provide pharmaceutical products with even less than the limited patent protection otherwise available in those countries.

In Taiwan, Article 4(3) of the Patent Law, states that medicines may not be patented. The National Bureau of Standards will grant patents for the methods of preparing such pharmaceuticals (commonly known as process patents). However, given that the burden of proof in a patent infringement lawsuit is on the plaintiff, such protection is far from adequate. The problem is that it is difficult if not impossible to force the defendant to disclose its method of preparation to the court and to prove that it is identical to the plaintiff's. This is particularly so if (as is most often the case with pharmaceutical products in these countries) the active ingredient has been imported from Eastern European or other countries which do not respect patents.

The situation is similar in Korea which also provides only process patent protection, with the burden of proof on the plaintiff, for pharmaceutical products.

Brazil and Mexico have gone even further. In 1969 Brazil abolished all patent protection for pharmaceuticals. Mexico did likewise in 1976.

PMA has participated in various local and international efforts to persuade the authorities of such countries to grant reasonable patent and trademark protection. Most recently, two PMA representatives participated in a U.S. delegation to Taiwan and South Korea to address these subjects. Although the delegation was well organized and prepared, it is considered unlikely that either country will change its system for a least several years.

Given that influential local companies benefit by being able to manufacture products discovered by other companies without paying royalties and incurring research and development costs, it is understandable that the governments will be reluctant to provide more adequate patent protection. Even when government officials agree that such change would be beneficial to the country and to the local industry in the long run, they find it difficult to secure a change.

We believe that revising the GSP program to place further emphasis on encouraging equitable and reasonable intellectual property protection for U.S. companies and their products in the marketplaces of the program's beneficiaries is in the interest both of the United States and the developing countries themselves.

As the United States' economy continues to shift from basic, heavy manufactured goods towards higher technology products, intellectual property protection is increasingly important to U.S. economic interests.

Encouragement for the more advanced LDCs to fulfill their responsibilities as increasingly important participants in the international economy can help them continue to develop to even more advanced levels by encouraging local research and development. As observed above, it can also assist local officials who are already convinced that such change is desirable in their efforts to enact changes in their own countries.

STATEMENT OF THE PLUMBING MANUFACTURERS INSTITUTE

The Plumbing Manufacturers Institute ("PMI") submits these comments in opposition to the inclusion of benefits for Taiwan under any extension of the Generalized System of Preferences ("GSP") beyond January 3, 1985. Taiwan is an advanced developing country, and as such, can compete very effectively in the United States market without any special concessions from our government. Accordingly, PMI strongly recommends that Taiwan be "graduated" out of the GSP program.

PMI is a national trade association representing American manufacturers of various plumbing products, such as faucets, gas and water fittings, stainless steel hoses, spray valves, stops, basket strainers, handles, and other similar items. As such, PMI members are vitally interested in the maintenance of free and fair competition in the domestic market, whether that competition is provided by American manufacturers or through imports of plumbing products from foreign countries.

PMI's concern for free competition and fair trade practices in the domestic market for plumbing products leads it to oppose the continuing designation of Taiwan as a beneficiary developing country ("BDC") under the GSP. As well shall demonstrate, Taiwan's continuing BDC status contravenes the legislative policy underlying the GSP, while conferring trade advantages on a country that does not need them to compete successfully in export markets.

The idea of a GSP had its genesis in the apparent decline in, and slow rate of growth of, exports from less developed countries ("LDCs") in the years following the Korean War. It was generally believed that the program would enable LDCs to "bootstrap" their economic growth by making their exports more competitive with those of economically advanced countries.¹

GSP benefits should continue to be conferred on a BDC only so long as that country remains in need of assistance to evolve out of "less developed" status. Under the concept of "graduation," GSP benefits would be denied to those countries that have achieved a more advanced stage of economic development, thus preserving and increasing the developmental benefits allocable to the LDCs that remain as "true" BDCs due to their lower stages of economic development.

Congress recognized the concept of country "graduation" in the GSP provisions of the Trade Act of 1974, 19 U.S.C. § 2461, et seq. Not only did Congress exclude 26 "developed" countries from designation as GSP beneficiaries, it specifically provided that the individual country's level of economic development "shall" be considered by the President as a primary factor in his discretionary selection of GSP beneficiary nations. 19 U.S.C. § 2462(c) provides, in part:

¹ See Kaye, Plaia, and Hertzberg, "International Trade Practice," (1983), § 39.02 at 39-1-39.3.

"(c) In determining whether to designate any country as a beneficiary developing country under this section, the President shall take into account

"(2) the level of economic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he deems appropriate;"

The legislative history of this provision and subsequent amendments demonstrate that both the Senate Finance Committee and the House Ways and Means Committee were of the view that the President should exercise his authority to bring about changes in the GSP program that would result in "effective graduation."²

By any measure, Taiwan is among the most advanced of the BDCs, and thus would seem to be a prime candidate for graduation out of the GSP. This is clear upon an analysis of Taiwan's standing under the discretionary factors established by Congress for BDC selection in 19 U.S.C. § 2642(c)(2). According to Taiwanese government statistics, Taiwan's per capita income reached \$2,360 in 1982.³ Whereas the exports of most "developing" countries are heavily comprised of primary products such as agricultural commodities, metal ores and minerals, industrial products constituted 92.4 percent of total Taiwanese exports in 1982.⁴ Those manufactured exports demonstrated a sophistication uncharacteristic of a technologically backward, less developed country. For example, Taiwan's official statistics show that "electrical machinery apparatus" comprised 17.61 percent of total exports. This product sophistication is also evident in the total export shares of transportation equipment (4.92 percent), metal products (4.59 percent), plastic products (3.27 percent) and precision instruments (2.15 percent).⁵ Furthermore, Taiwan does not need further incentives to spur exports to the United States. In 1981, Taiwan exported \$8.049 billion worth of goods to the United States, while exporting only \$4.305 billion worth of products from this country.⁶ It is evident that while measures may be needed to narrow the U.S.-Taiwanese trade gap, these efforts should not include tariff concessions to spur further Taiwanese exports to the United States.

Another factor established by Congress for the President's consideration in selecting a nation for BDC status was that country's standard of living. 19 U.S.C. § 2462(c)(2). Again, Taiwan's living standards are much more characteristic of a nation in an advanced, rather than an earlier stage of economic development. Life expectancy for the average Taiwanese reached 71 years in 1979, which compared favorably with that recorded in the United States, the United Kingdom and France, each of which recorded average life expectancies of 73 years of age in 1978.⁷ Second, Taiwan's 1979 infant mortality rate of 14 per 1,000 births was in the same range as that belonging to major industrial countries.⁸ Finally, Taiwan's literacy rate, estimated at 82 percent of the population,⁹ is characteristic of a newly industrialized country rather than that which is prevalent in less-developed GSP beneficiaries such as India or Bangladesh.¹⁰

Taiwan's high state of economic development has not unexpectedly been reflected by its "lion's share" of GSP benefits. In 1982, Taiwan was the largest single country recipient of GSP benefits, with almost 28 percent of total GSP imports.¹¹ Moreover, during that year, Taiwan and four other advanced developing countries (Republic of Korea, Brazil, Mexico and Hong Kong) accounted for 64 percent of total U.S. GSP imports.¹² These figures are a clear reflection of the fact that the distribution of

² S. Rept. 249, 96th Congress, 1st session, reprinted in 1979 U.S. Code Cong. and Adm. News 381, 659.

³ Council for Economic Planning & Development, "Industry of Free China," May 1983, p. 218.

⁴ Council for Economic Planning & Development, "Industry of Free China," June 1983, p. 16.

⁵ Council for Economic Planning & Development, "Industry of Free China," May 1983, pp. 180-184.

⁶ Bureau of the Census, Statistical Abstract of the United States, 1982-83, at p. 838.

⁷ Id. at 862.

⁸ Newspaper Enterprises Assoc., Inc., World Almanac and Book of Facts: 1983, New York, p. 511. (For example, Greece's 1978 infant mortality rate was 17 per 1,000 births. World Almanac and Book of Facts: 1983, supra, at 548.)

⁹ World Almanac and Book of Facts: 1983, supra, at 511.

¹⁰ For example, India's 1978 literacy rate was 36 percent while that of Bangladesh was 29 percent. See World Almanac and Book of Facts: 1983, supra, at 529, 502.

¹¹ Source: Office of the U.S. Special Trade Representative.

¹² Id.

GSP benefits has been extremely uneven, with the greatest share of such benefits accruing to the most developed countries.

This same conclusion was reached by President Carter in his "Report to the Congress on the First Five Year's Operation of the U.S. Generalized System of Preferences" (April 17, 1980). In that report, the President noted:

"In order for a developing country to take advantage of the U.S. program it must be far enough along the development path to have a fairly well-developed infrastructure and productive capacity in the manufactures that predominate in the U.S. scheme." *Id.* at x.

This lopsided misallocation of GSP benefits continues today. In his testimony before the House Ways and Means Committee on August 3, 1983, Ambassador William E. Brock, U.S. Trade Representative, stated that the least developed countries currently get only one-half of one percent of total U.S. GSP benefits. This skewing of GSP benefits toward the most economically advanced countries contravenes the original rationale for Congressional approval of the GSP and lends further support to a "graduation ceremony" for advanced countries such as Taiwan.

Another factor that Congress prescribed for the President to take into account concerning the designation of a BDC is "whether or not the other major developed countries are extending generalized preferential tariff treatment to such [a] country; . . ." 19 U.S.C. § 2462(c)(4). In 1980, in addition to the United States, only Japan, Austria, Australia and New Zealand granted BDC status to Taiwan.¹³ It is evident that other major developed countries have recognized that Taiwan has "graduated" from BDC status.

Ambassador Brock has acknowledged the need for reallocating GSP benefits from the more advanced BDCs to the less developed BDCs "to the degree possible."¹⁴ However, Ambassador Brock's approach has been to push for lower "competitive need" limits, thus graduating specific export items from GSP status for individual countries rather than graduating the country from the GSP program because of its general state of economic development.¹⁵

While the Reagan Administration's increased emphasis on the "competitive need" limitations is a step in the right direction, it will not cure the problems presented by the more advanced BDCs such as Taiwan. This is due to the fact that the competitive need limitations are, and will continue to be calculated on the basis of five-digit Tariff Schedules of the United States (T.S.U.S.) numbers rather than the seven-digit numbers which provide a much more thorough breakdown of the individual types of products imported. Consequently, a BDC can supply far more than 50 percent of total U.S. imports of a seven-digit product without suffering the loss of GSP eligibility for that product. See 19 U.S.C. § 2464(c).

As an example, many of the imported products that directly compete with those manufactured by PMI members are classified under T.S.U.S. 680.1410, which is entitled:

"Taps, cocks, valves, and similar devices, however operated, used to control the flow of liquids, gases, or solids, all the foregoing and parts thereof: Hand-operated and check, and parts thereof: of copper—Under 125 pounds working pressure . . ."

During 1981 and 1982, Taiwanese imports constituted approximately 65 percent of the total value of imported items classified under T.S.U.S. 680.1410.¹⁶ However, because Taiwanese imports apparently comprised less than 50 percent of total imports classified under the appropriate five digit T.S.U.S. number, 680.14, (which includes a much wider array of other types of industrial products) Taiwan was not subject to product graduation on a "competitive need" basis.

Accordingly, the revised competitive need standards, while a considerable improvement over those currently in effect, will not alleviate the problems posed to American manufacturers by GSP imports from advanced BDCs such as Taiwan.

PMI also submits that the Congress should seriously weigh the cooperation which the foreign governments have offered in stopping exports of unfairly traded goods to the United States in considering any extension of BDC status. The plumbing supply industry is currently beset with a rash of Taiwanese imports which are either counterfeits of United States' products or are confusingly similar. Palming off, trademark and patent infringement are common features. The "Delta" faucet, with its

¹³ Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences (Apr. 17, 1980), p. 6.

¹⁴ Letter from Ambassador William E. Brock to Hon. Dan Rostenkowski, Chairman, House Ways and Means Committee, dated July 12, 1983.

¹⁵ See Statement by Ambassador William E. Brock before the Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Aug. 3, 1983.

¹⁶ Based on U.S. Customs data.

single lever control and distinctive design and recognition in the American market, is a good example. Recent imports from Taiwan under the "Atled" ("Delta" backwards) label have exactly the same design configuration as the American product. Delta currently has four suits pending, including a Section 337 action at the ITC. Other companies have experienced similar difficulties. One member reports that his catalog pictures have been exactly duplicated in Taiwanese sales brochures now being circulated.

Although there are legal remedies which can be, and have been, pursued by our members, they are a costly and fragmentary approach to a multifaceted problem. It is essential that foreign governments cooperate with our Customs Service to eliminate these unfair practices at the source.

Any consideration of GSP extension to Taiwan should thoroughly assess the cooperation of the Taiwanese government in dealing with this troublesome and important problem.

In conclusion, PMI believes that the best and fairest approach is for Congress to amend the GSP statute to provide for the graduation of newly-industrialized countries, such as Taiwan, out of GSP beneficiary status. This step would remove unneeded export advantages from the most advanced BDCs, while redistributing export incentives to those lesser-developed nations which need them most.

STATEMENT OF LEE CAMPBELL, PRESIDENT, POULTRY AND EGG INSTITUTE OF AMERICA

Mr. Chairman, Members of the Committee, my name is Lee Campbell. I am President of the Poultry and Egg Institute of America, Arlington, Virginia, a national non-profit trade association representing those who produce, process and distribute chickens, ducks, eggs, turkeys and poultry and egg products.

The domestic poultry and egg industry has been export oriented looking to foreign sales to complement the domestic market for its products. Until recently, the industry has been successful in its marketing programs. Those successes are largely attributable to the high productivity which the industry has achieved. The fortunes of the industry, however, have radically changed in the last year and a half as subsidized industries in Brazil and the European Economic Community have penetrated markets previously supplied by the U.S. industry.

The United States cannot ignore the predatory actions of countries like Brazil. The United States government has taken the first step to address these problems by initiating consultations with the Brazilian government concerning its export subsidies on poultry products. These consultations were begun in conjunction with the proceeding instituted following the 1981 filing of a complaint against the European Economic Community under Section 301 of the Trade Act of 1974. Simultaneously, however, the U.S. government has granted preferential tariff status to any imports of several poultry and egg products which may originate in Brazil and other developing countries. Such contradictory actions send mixed signals to our trading partners and undermine the United States' ability to resolve existing trade disputes.

It should be emphasized, too, that Brazil prohibits the imports of chickens and table eggs.

Other countries, among the major recipients of the benefits of the Generalized System of Preferences, have erected substantial barriers—both tariff and non-tariff—against the imports of U.S. poultry and eggs.

Venezuela reserves all table eggs for import only by the government at a duty of 20 percent. The import of chicken is not possible currently and even then subject to a high duty of 20 percent plus B4.50 per kilogram.

Korea allows a small quota to enter for the hotel and restaurant trade but otherwise the imports of poultry are restricted to licensing coupled with a high duty. Egg products imports require government approval, not generally given.

Taiwan bans the import of chicken. Duties on other poultry run from 50 to 75 percent. Table eggs have a 39 percent duty and egg products, 61 percent.

Malaysia has banned the imports of chicken and other poultry and egg imports carry high duties.

Indonesia's high duty effectively prevents the import of poultry and eggs.

Nigeria has banned the import of poultry and eggs.

We are not asking that a protective wall be built around U.S. poultry and egg producers. We are prepared to insist, however, that countries which either effectively exclude U.S. products from their markets or grant export subsidies which enable their industries to compete unfairly should not receive preferential tariff treatment from the United States on products which they export. This preferential treatment

is also an abrogation of the Most Favored Nation principle to which the United States is strongly committed.

The Congress is equally frustrated by our trading partner's continued use of export subsidies. There are ample grounds for this frustration because of the lack of tangible results in achieving meaningful reductions in such subsidies. In short, the industry is fighting for its life and can ill afford the grant of duty free status to foster competition throughout the world.

For the foregoing reasons, and others which I will shortly address, the Institute opposes the continuation of GSP eligibility for agricultural products. The experience during the period in which the GSP program has been in effect has failed to demonstrate that eligibility for agricultural products enhances the development of beneficiary countries. The product requests made by developing countries and, therefore, the products subject to consideration by the U.S. government, moreover, have increasingly burdened U.S. agriculture at a time when the condition of U.S. agriculture itself is deteriorating and its markets shrinking. The continued inclusion of agricultural products in the GSP therefore is increasingly difficult to justify.

The authority for the Generalized System of Preferences will expire on January 1, 1985, ten years after its inception. During those ten years, major changes in the world trading system have occurred. The U.S. share of commodity trade diminished substantially during that time. Simultaneously GSP beneficiary countries expanded both the volume and the value of their exports.

Any discussion of a possible renewal of GSP authority must, therefore, assess the relative trade position of the United States, the direction of the world trading system, and the impact of beneficiary status on the countries involved.

Without question, U.S. trade in both commodities and services have encountered an increasing number of trade barriers in recent years. Many of those obstacles to fair and open trade have been imposed by developing beneficiary countries. The reason for their implementation has varied. Some barriers have been erected because of balance of payment difficulties. Others have been established as part of programs to protect infant or inefficient industries. Still other practices, particularly production and export subsidies, have been developed to promote the growth of industries which are already competitive. These programs may serve legitimate purposes when viewed from the perspective of the nations which have established them. When seen by an American farmer or food processor, who must do business in the restricted environment thus created, the practices are far less benign.

An equally fundamental issue for the Generalized System of Preferences, however, is whether the grant of preferential status for agricultural products serves in any tangible fashion, the development needs of the non-developed countries. In retrospect it is clear that the proponents of the GSP legislation in 1973 and 1974 were right when they directed that agricultural products should be included on only a selected basis in the list of eligible products. The rationale for that limitation, of course, was that most developing countries were already major producers of tropical and other agricultural products and that their overdependence on such products was part of the problem and an underlying cause of their continued under-development. Any preference which generally promoted further expansion of agricultural product cultivation was seen as contributing only to an aggravation of their existing problems, rather than aid to their economic development. Despite this clear direction from the sponsors of the GSP legislation, many developing countries and members of the U.S. government have adopted the view that preferential status for agricultural products would enable such countries to market their goods in the United States and thereby earn the necessary foreign exchange for the development of import substitution and other industries. In the minds of many well-thinking people, the economic development of such would, thus, be achieved.

The reality, however, is quite different. The experience of developing countries in recent years has been that an expansion of agricultural exports has seriously disrupted or stagnated the industrialization of many countries. Those countries which have relied on the creation of substantial agricultural export sectors to expedite development have seen their goal slip from their grasp. All too often, the result has been that the demands of the agricultural export sector have competed directly with the capital and infrastructure requirements of developing industries. The costs incurred in subsidizing the production and exportation of poultry and other products has been a heavy burden on the economy of such countries when such funds could perhaps be more effectively spent on industrial development. The expansion of such industries consequently has been slowed. An equally detrimental effect has been the impact on non-export agricultural production. Such production which generally involves the cultivation of staple crops, on which the majority of the population depends for its dietary requirements, has fallen necessitating imports of grains and

other food stuffs. The economic position of the developing countries has deteriorated further because the prices for many tropical and other export products have declined, while the cost of staple product imports have increased. It is noteworthy, moreover, that the 1980 five year report on the operation of the GSP program was unable to point to any development benefits to the beneficiary countries.

The fact that five or six countries derive the preponderance of tariff benefits under the GSP also undermines the utility of the preferences for the remaining countries.

The deteriorating trade environment in which poultry and egg producers must compete compels the Poultry and Egg Institute to oppose an extension of the GSP which includes agricultural products. The trade policy of the United States, the interests of U.S. agriculture and economic development theory all point to one conclusion: GSP status for agricultural products constitutes a significant cost for the U.S. farmers and the U.S. Treasury while providing no benefit to the development countries which it was intended to assist.

We are pleased that Congressmen Thomas and Matsui have introduced H.R. 3581 which would amend Section 503 of the Trade Act of 1974, as amended, to prohibit the eligibility of agricultural products and by-products under the GSP.

If the GSP program is to continue at all, we contend that it must do so without preferential treatment for agricultural products.

STATEMENT OF THE PRESSURE SENSITIVE TAPE COUNCIL

The Pressure Sensitive Tape Council ("PSTC") submits this statement in support of statutory changes to the Generalized System of Preferences ("GSP") that would remove GSP benefits from newly-industrialized countries, such as Taiwan, which do not need them. These countries can compete very effectively in the United States market without special tariff concessions from our government.

PSTC is a national trade association representing thirteen American manufacturers of pressure sensitive tape.¹ Pressure sensitive tape has a flexible backing or carrier element of a sheet material, and pressure sensitive adhesive coating on one or both surfaces of such backing or carrier element. In the industry parlance, the definition usually does not include surgical and medical tapes or label stock. Popular industry products include box-sealing, electrical, masking, and specialty tapes. Many of these items are essentially commodity products and hence very price sensitive.

Pressure sensitive tape is currently found in the Tariff Schedules of the United States ("TSUS"), Item 790.55, which provide:

Item	Description	1	LDCC	2
790.55	Sheets, strips, tapes, stencils, monograms and other fiat shapes or forms, all the foregoing articles (except articles provided for in Item 790.50) which are pressure sensitive, with or without protective liners, and whether or not in rolls.....	7.9% ad val.	5.8% ad val.	40% ad val.
	Pressure sensitive tape:			
790.30	Filament reinforced			
	Other:			
	Having a plastic backing:			
790.45	Electrical tape			
790.55	Other			
790.85	Other			
790.95	Other			

An analysis of the import data on this category shows that the Taiwanese have been consistently increasing their exports of pressure sensitive tape to the United States over the last three years, and are in no need of continued tariff concessions under the GSP to spur further exports. Attached as Exhibits B and C, respectively, are import data for 1982 showing the quantity and value of Taiwanese imports and all imports broken down by seven-digit TSUS category. Exhibit D shows how the quantities of Taiwanese tape imports and their percentage relation to total imports have fluctuated over a three-year period. From 1980 to 1982, Taiwanese tape imports increased from 65.5 million to 95.3 million yards, a dramatic jump of over 45

¹ See Exhibit A for the names and addresses of PSTC members.

percent. The vast majority of this increase was in the non-electrical, plastic-backed category which includes the high volume, carton sealing tape (TSUS 790.5555). There was an increase of 55 percent in this category. Clearly, Taiwan is competing very aggressively and successfully in the American market for pressure-sensitive tape.

Precise data on the total American market are not collected by PSTC or by any government authority, and, therefore, penetration figures are not available. We believe, however, that the Taiwanese have increased substantially their market share during the last three years. Referring to Exhibit D, we find that the Taiwanese have retained their percentage penetration figures vis-a-vis imports from other countries. With respect to electrical, plastic-backed tape (790.5530), the Taiwanese are the dominant force in the market. Their products constitute approximately 90 percent of all imports of this particular type of pressure sensitive tape. The Taiwanese share of imports in the other seven-digit categories is lower but still very significant. In 1982, they provided 36.6 percent of imports in the non-electrical, plastic-backed category (790.5555), and 35.5 percent of the nonspecified tape category (790.5585). It is also significant to note that the Taiwanese have recently begun to focus on filament reinforced tape (790.5530). Just two years ago, they shipped to the U.S. only 131,000 square yards, or 1.3 percent of all imports of this product. By 1982, this figure had jumped almost nine-fold to 1,006,000 square yards, or 21 percent of all such imports. The trends are alarming.

These statistics indicate that the Taiwanese have effectively captured a significant portion of the tape market in the United States and that the trend is for greater penetration. These figures do not show a less developed country unable to compete effectively with its industrialized trading partners. To the contrary, Taiwanese tape manufacturers are aggressive, well-capitalized, effective competitors who are combining new plants, low labor rates and duty forgiveness to achieve a staggering market advantage.

The import statistics and the experience of the pressure sensitive tape industry demonstrate a substantial shortcoming in the current GSP—the ability of a foreign nation to target a sub-industry without jeopardizing its beneficiary developing country ("BDC") status with respect to an "eligible article." The country graduation formula set forth in Section 504(c), 19 U.S.C. § 2464(c)(1), (also known as the "competitive need" limitation) only applies when imports from one nation exceed 50 percent of the total U.S. imports of a five-digit TSUS item.² As a practical matter, the Taiwanese have targeted certain segments of the tape market, focusing their resources and marketing efforts on particular products that constitute seven-digit TSUS items. For instance, they have provided between 81 percent and 93 percent by value of all imports of electrical tape, a seven-digit TSUS item, between 1980 and 1982, and are dominant in this segment of the market. Nonetheless, Taiwanese electrical tape continues to enjoy duty-free treatment because total Taiwanese exports to the U.S. of the inclusive five-digit TSUS product items do not exceed the 50 percent limitation. In this way, BDCs such as Taiwan can effectively capture an entire domestic market segment, yet enjoy continued duty-free treatment for their exports of that product merely because the import constitutes a seven-digit, rather than five-digit TSUS item.

Ambassador Brock's recent proposal to adjust the competitive need percentage limitation downward to 25 percent is certainly a step in the right direction. But it is an inadequate measure because it does not address the ability of a newly industrialized country such as Taiwan, to dominate U.S. imports of a seven-digit TSUS item without suffering the loss of GSP benefits.

A better approach would be to graduate the newly industrialized countries out of the GSP entirely. In enacting the GSP statute, Congress established several factors to be considered by the President in his discretionary selection of GSP beneficiary nations. Among these were: (1) the country's per capita gross national product; (2) the living standards of its inhabitants; and (3) whether or not the other major countries are extending preferential tariff treatment to that country. See 19 U.S.C. § 2462(c)(3), (4). In 1982, Taiwan's per capita income reached \$2,360, far in excess of that achieved by the vast majority of less developed countries.³ Moreover, Taiwanese living standards are much more reflective of a nation in an advanced state of economic development than of a less-developed country. Two of the primary indicators of a nation's living standards are its infant mortality rate and the average life

² 19 U.S.C. § 2464(c)(1) also provides for the removal of country GSP eligibility by the President when the value of that country's annual exports of a particular five-digit T.S.U.S. item exceeds a specific dollar amount approximately (\$53.3 million in 1982).

³ Council for Economic Planning and Development, Industry of Free China, May 1983, p. 218.

expectancy of its citizens. For example, life expectancy for the Taiwanese reached 72 years in 1979, while Taiwan's 1978 infant mortality rate was 14 per 1,000 live births.⁴ By way of contrast, Greece, as an EEC-member nation, is not entitled to GSP beneficiary nation status. Yet in 1978, its average life expectancy (73.5 years at birth) and infant mortality rate (17 per 1,000 live births), demonstrated that Greece's living standards were comparable to those of Taiwan, a GSP beneficiary nation.^{5 6}

Furthermore, as of 1980, only the United States, Japan, Austria, Australia and New Zealand extended GSP status to Taiwan.⁷ It is evident that other developed nations have recognized that Taiwan neither needs nor deserves BDC status under our Generalized System of Preferences.

An analysis of Taiwanese trading patterns over the past thirty years provides further evidence that Taiwan, as a newly-industrialized country, should be graduated out of the U.S. GSP. In 1952, raw and processed agricultural goods accounted for 91.9 percent of total Taiwanese exports of \$116 million, while industrial products constituted a mere 8.1 percent of this figure.⁸ By 1982, however, Taiwanese exports had reached \$22,204 million and the shares of agricultural and manufactured products had been reversed.⁹ Industrial products constituted 92.4 percent of Taiwan's 1982 exports, while raw and processed agricultural goods provided a mere 7.6 percent.¹⁰ These trade figures do not provide evidence of a less developed country in need of export incentives to spur the creation of an industrial sector.

This conclusion is buttressed by an analysis of bilateral Taiwanese-U.S. trade from 1952 to 1982. In 1952, the value of Taiwanese exports to the U.S. was \$4 million.¹¹ By 1982, this figure had risen to \$8,759 million, and enabled Taiwan to maintain an almost \$4.3 billion trade surplus with the United States.¹² Moreover, manufactured products accounted for nearly 97.8 percent of total Taiwanese exports to the United States.¹³ Clearly, Taiwan has no need for special tariff concessions from our government to enhance the development of its industrial sector.

Accordingly, PSTC recommends that Congress extend the GSP, but provide for the graduation of the newly-industrialized countries, such as Taiwan, out of the GSP program. Alternatively, at a minimum, PSTC strongly urges that the GSP statute be amended to provide for automatic BDC graduation by product if a nation's exports exceed a 25 percent competitive need ceiling for a seven-digit TSUS product category.

EXHIBIT A.—PRESSURE SENSITIVE TAPE COUNCIL MEMBERS

AGP Industries, Inc., One Main Street, Brooklyn, New York 11201. (212) 237-3900.
American Biltrite, Inc., 106 Gaither Drive, Mt. Laurel, New Jersey 08054. (609) 778-0700.

Anchor Continental, Inc. Post Office Drawer G, Columbia, South Carolina 29250. (803) 779-8800.

Ideal Tape Inc., Post Office Box 828, 1400 Middlesex Street, Lowell, Massachusetts 01851. (617) 458-6833.

The Kendall Co., Polyken Tape Division, One Federal Street, Boston, Massachusetts 02101. (617) 423-2000.

Mactac, 4560 Darrow Road, Stow, Ohio 44224. (216) 688-1111.

3M, 3M Center, St. Paul, Minnesota 55144. (612) 733-1110.

Mystik Corp., 60 Happ Road, Northfield, Illinois 60093. (312) 446-4000.

Norwood Industries, 100 N. Morehall Road, Malvern, Pennsylvania 19355. (215) 647-3500.

RJM Manufacturing, Inc., 1626 Bridgewater Road, Bensalem, Pennsylvania 19020. (215) 245-1800.

⁴ Newspaper Enterprise Assn., Inc., *The World Almanac and Book of Facts*: 1983, p. 511.

⁵ *Id.* at 524.

⁶ A comparison of Taiwan's statistics to those of Pakistan, a BDC, and truly a less-developed country, is even more enlightening. In 1980, the average life expectancy for a Pakistani hovered around 52 years of age, with an infant mortality rate of 142 per 1,000 live births. *Id.* at 551.

⁷ "Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences" Apr. 17, 1980, p. 6.

⁸ R.O.C. Council for Economic Planning and Development, *Industry of Free China*, June 1983, p. 16.

⁹ *Id.* at 14, 16.

¹⁰ *Id.* at 14, 16.

¹¹ *Industry of Free China*, *supra* at 14.

¹² *Id.* at 14.

¹³ *Id.* at 17.

Shuford Mills, Inc., Tape Division, Post Office Box 1530, Hickory, North Carolina 28603. (704) 322-2700.

Tesa Corp., 5 Astro Place, Denville, New Jersey 07834. (201) 627-1030.

Tuck Tape, Inc. 1 LeFevre Lane, New Rochelle, New York 10801. (914) 235-1000.

EXHIBIT B.—IMPORT STATISTICS—PRESSURE SENSITIVE TAPE, T.S.U.S. 790.55, 1982

T.S.U.S. statistical category	Description	Taiwan		All imports		Taiwanese	
		Sq. yd.	Amount	Sq. yd.	Amount	Sq. yd.	Percent
790.5530	Filament reinforced	1,543	¹ \$2,579				
		1,004,720	158,932				
790.5545	Electrical, plastic backed	1,006,263	161,511	4,620,986	\$1,009,583	21.8	16.0
		¹ 9,683	8,647				
		16,493,267	4,340,058				
790.5555	Nonelectrical, plastic backed	16,502,950	4,348,705	19,735,958	4,899,829	83.6	88.8
		¹ 46,490	¹ 28,013				
		66,139,540	12,666,162				
790.5585	Nonspecified	66,186,030	12,694,175	187,749,118	34,647,243	35.3	36.6
		¹ 33	¹ 688				
		11,612,873	2,742,734				
790.5595	Nontape shapes	11,612,906	2,743,422	40,447,232	8,188,943	28.7	33.5
		N.A.	¹ 84,316	N.A.			
		N.A.	3,463,453	N.A.			
			3,547,769		21,203,675	N.A.	16.7
Total of tape categories 790.5530-790.5585		95,308,149	19,947,813	252,553,294	48,7598	37.7	40.9
Total of 790.55			23,495,582		69,949,273		33.6

¹ Imports on which GSP did not apply and duty was paid.

Source: U.S. Department of Commerce, Bureau of Census computer records, IM 146 reports.

EXHIBIT C.—IMPORT STATISTICS—PRESSURE SENSITIVE TAPE, T.S.U.S. 79.55, 1981

T.S.U.S. statistical category	Taiwan		All imports		Taiwanese	
	Sq. yd.	Amount	Sq. yd.	Amount	Sq. yd.	Percent. dollar
Description						
790.5530.....	667,922	\$84,041	4,313,848	\$2,063,751	15.5	4.1
790.5545.....	¹ 288,694	¹ 93,601				
	17,388,810	6,436,005				
790.5555.....	17,677,504	6,529,606	18,339,852	7,002,185	96.4	93.3
	¹ 703,452	¹ 137,360				
	56,040,997	11,486,613				
790.5585.....	56,744,449	11,623,973	168,273,247	30,882,779	33.7	37.6
	¹ 168,429	¹ 74,580				
	8,833,766	2,890,953				
790.5595.....	9,002,195	2,965,533	30,142,277	7,342,848	29.9	40.4
	N.A.	¹ 36,381				
	5,470	2,244,913				
	5,470	2,281,294	5,470	17,058,342		13.4
Total of tape categories, 790.5530-790.5585.....	84,092,070	21,203,153	221,069,224	47,291,563	38.0	44.8
Total of 790.55.....		23,484,447		64,349,905		36.5

¹ Imports on which G.S.P. did not apply and duty was paid.

Source: U.S. Department of Commerce, Bureau of Census computer records, IM 146 reports.

EXHIBIT D.—YEARLY COMPARISONS OF IMPORT STATISTICS—PRESSURE SENSITIVE TAPE FROM TAIWAN

T.S.U.S. statistical category	Description	Net quantity (SYD) in thousands			Percent of all imports by quantity (SYD)			Percent of all imports by value		
		1982	1981	1980	1982	1981	1980	1982	1981	1980
790.5530.....	Filament reinforced.....	1,006	668	131	21.8	15.5	1.3	16.0	4.7	2.4
790.5545.....	Electrical, plastic backed.....	16,503	17,678	15,195	83.6	96.4	85.6	88.8	93.2	80.8
790.5555.....	Nonelectrical, plastic backed.....	66,186	56,745	42,813	35.3	33.7	35.4	36.6	37.6	31.0
790.5585.....	Nonspecified.....	11,613	9,002	7,342	28.7	30.0	34.4	33.5	40.4	32.0
		95,308	84,093	65,481						

STATEMENT OF AMBASSADOR PUNCH COOMARASWAMY OF THE REPUBLIC OF SINGAPORE

Mr. Chairman, the renewal of the United States' GSP programme beyond 1985 is a matter of deep concern to the Government of Singapore.

President Reagan, in his 1983 State of the Union Address, said "... America must be an unrelenting advocate of free trade. As some nations are tempted to turn to protectionism, our strategy cannot be to follow them but to lead the way toward freer trade". In the face of increasing protectionism in the world economy today, Singapore was heartened to hear this strong advocacy by President Reagan. Free trade and free market enterprise are the very foundations of the economic strength and prosperity of the free world. We look to the United States to lead the world in reaffirming the principle of free trade and upholding the foundations of the free world.

Since our independence in 1965, my Government has adopted the principle of free trade as one of the basic tenets of our economic policy. Singapore's commitment to free trade and open markets can be clearly demonstrated. In 1976, when the United States' GSP programme was established, importers had to pay duty on 11 percent of all goods brought into Singapore. Since then, as Singapore's development permitted, we have further opened our market.

Between 1976 and 1982, we lowered duties on 574 items to an average of 5 percent ad valorem and abolished tariffs for 313 additional items. In 1982, 91 percent of goods from all countries entered Singapore free of duty. In the case of the United States, 94 percent of her exports to Singapore were admitted duty-free. It is important to note that of the remaining 6 percent, about 4 percent fall under the category of revenue-raising duties in which domestic products pay exactly the same duties as the imported products. Therefore, virtually only 2 percent of US exports attract what can be properly termed as protective import duty.

Thus, while some designated exports from Singapore enjoy duty-free entry into the United States under the GSP programme, almost all American goods (that is 98 percent) enter Singapore without facing any protective tariff or non-tariff barriers. In 1982, 3.5 billion dollars worth of American goods entered Singapore duty-free while only 0.4 billion dollars of Singapore's exports to the United States were duty-free under the GSP scheme.

It is also significant, Mr. Chairman, that the balance of our bilateral trade has been perennially in favour of the United States. Singapore's trade deficit with the United States increased by 267 percent from 0.3 billion dollars in 1976 to over 1.0 billion dollars in 1982. Singapore is not seeking balanced trade with the United States. In view of our current industrialization programme, it is very likely that the trade deficit will continue to increase. However, it is our hope that due account will be taken of the large and growing trade surplus which the United States enjoys in our bilateral trade when considering future actions on the GSP programme.

My Government requests that the Government of the United States favourably considers the extension of the GSP programme beyond 1985 and the continued inclusion of Singapore as a beneficiary. Given the openness of the Singapore market to American goods, the United States' GSP scheme can be viewed as a reciprocating instrument, in addition to its recognised role as a developmental aid programme to help developing countries help themselves.

In its extension of the GSP programme, the United States should include countries such as Singapore which have shown an universally acknowledged commitment to free trade. The United States has advocated that third world countries should bear greater responsibilities in international trade, concomitant with their levels of development. My country has done voluntarily and continues to do what the United States would prevail on others to do. The reduction or removal of GSP benefits for Singapore will be a step backwards from our mutual commitment to free trade. It would discourage other developing countries from adopting more liberal trade policies voluntarily and instead, encourage the conservation of tariff and non-tariff barriers to maximise their negotiating positions.

Furthermore, Mr Chairman, the GSP programme has benefitted not only Singapore but also the United States. The programme has created a demand for American industrial raw materials and capital goods which Singapore required in its economic upgrading and industrialisation. American exports to Singapore have increased from 1.4 billion dollars in 1976 to 3.8 billion dollars in 1982. Industrial raw materials and capital goods accounted for 58 percent of these imports.

Mr. Chairman, Singapore is unique among GSP beneficiary countries. We are a small open economy on an island less than 250 square miles—a mere one-fifth the size of Rhode Island. We have no natural resources and so we have to rely on the world markets to survive. Our trade is 3.6 times larger than our gross domestic

product. This makes our economy extremely susceptible to adverse international economic trends. Although Singapore has been relatively successful in the export of some products, we have yet to achieve a self-sustaining industrial base. There are still many gaps in our industrial structure. We need more time. Singapore continues to need the help of the GSP programmes of donor countries, particularly that of the United States, to achieve its economic development objectives.

My Government is deeply concerned that any action by the United States to reduce or remove GSP benefits would have an adverse influence on other donor countries. In tandem with the United States, they could likewise withdraw their GSP benefits. In the context of our bilateral relations, such an action by the United States would penalise Singapore many times over in spite of our excellent political and economic ties.

To conclude, Mr. Chairman, the United States and Singapore share many common values and interests. These go beyond the excellent political and economic relations between our two countries. Amidst the economic and political uncertainties in the world today, Singapore desires to maintain the close relationship with the United States. My Government, therefore, requests the Government of the United States to strengthen this relationship by extending the GSP programme beyond 1985 and continue to include Singapore as a beneficiary of the scheme.

SLIDE FASTENER ASSOCIATION INC.,
New York, N.Y., August 2, 1983.

Re renewal of GSP: TSUS 745.7 "Slide Fasteners and Parts Thereof".

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, House of Representatives, Longworth
House Office Building, Washington, D.C.

DEAR SIR: This statement is submitted by the Slide Fastener Association, Inc. (SFA) in response to the invitation of the Subcommittee on Trade of the Committee on Ways and Means to submit written comment on the possible renewal of the U.S. Generalized System of Preferences (GSP), as announced in the Subcommittee's release (No. 14) of Thursday, July 21, 1983. The Slide Fastener Association is a trade association, embracing within its membership 9 firms, which accounts for approximately 80 percent of the U.S. production of finished slide fasteners.

ADVERSE IMPACT OF IMPORTED FINISHED GOODS

The continued survival of the U.S. slide fastener industry is seriously threatened by the unprecedented increase in imported finished goods containing foreign made slide fasteners. In the past ten years, the unit sales of U.S. manufactured slide fasteners declined by 30 percent (651,000,000 units) with most of that (61 percent or 397,100,000 units) taking place in the last 5 years, as shown by the following table:

Year	Millions of units
1973	2,152.9
1974	1,928.5
1975	1,856.6
1976	2,043.2
1977	2,104.8
1978	1,899.0
1979	1,843.8
1980	1,867.6
1981	1,786.3
1982	1,501.9

Source: Industry reports to confidential agent.

Total U.S. sales of products, both of domestic and foreign origin, containing slide fasteners, however, has varied very little during this period. As domestic production has dropped, imports of finished goods incorporating slide fasteners such as apparel, footwear, and leather goods, have soared. The U.S. Government's apparel, footwear, and leather goods "Open-Door" policies have thus adversely affected the domestic slide fastener industry apparently in direct proportion to the reduction in sales of U.S. manufactured slide fasteners.

There are several GSP beneficiary countries, e.g. Korea, Taiwan, Hong Kong, Philippines, Brazil, and Mexico, which are now firmly established in the manufacture of apparel, footwear and leather goods and, hence, should not be allowed to

continue to benefit from preferences for these goods to the detriment of U.S. industry.

Likewise, the U.S. Government should eliminate concessions on all imported finished apparel, footwear, and leather goods that incorporate slide fasteners, clasps, locks, hinges, or other manufactured closure sub-assemblies not manufactured in the U.S., since the closure industries of the U.S. are non-target entities affected by these U.S. "Open-Door" policies.

If the "Open-Door" policies are to continue, the U.S. Government should consider limiting the preferences only to those imported finished goods that have been assembled from 100 percent U.S. manufactured components and materials which, in turn, would provide some benefits to U.S. industry.

Maintaining a healthy U.S. slide fastener industry with U.S. workers employed is certainly more beneficial to the U.S. economy than the granting of preferences and concessions on imported apparel and other goods which only has a "domino effect" on the slide fastener industry.

THE SLIDE FASTENER INDUSTRY IS "IMPORT SENSITIVE"

The USITC, with the help of the Executive Branch, determined in 1976 (Investigation No. TA-201-6) that the slide fastener industry was eligible for trade adjustment assistance. Imports of finished slide fasteners, although having dropped from the levels of the early 1970s, increased in 1982 to the highest level since 1978, as shown in the following table:

Year	Imports of finished slide fasteners (millions)	Comparison to industry report on unit sales (percent)
1973.....	114.4	5.3
1974.....	126.7	6.6
1975.....	66.4	3.6
1976.....	82.5	4.0
1977.....	60.0	2.9
1978.....	65.6	3.5
1979.....	44.1	2.4
1980.....	41.0	2.2
1981.....	34.0	1.9
1982.....	53.0	3.5

Source: U.S. Department of Commerce—IM146.

"Slide fasteners valued not over \$0.04 each" (TSUS 745.7000) are eligible for GSP benefits. Of the 2,789¹ thousand units (\$105,620¹ customs value) entering the U.S. in 1982 under TSUS 745.7000, 51.7 percent of the units (66.5 percent customs value) came from Taiwan all duty-free and 20.7 percent of the units (14.2 percent customs value) came from Korea all duty-free. In 1981, 731 thousand units (\$17,774 customs value) entered the U.S. with 1.9 percent (units and value) coming into the U.S. duty-free from Korea; none entered from Taiwan. Prior to 1981, there were no "duty-free" entry of slide fasteners. It is anticipated that "duty-free" entries from GSP beneficiary countries, especially Taiwan and Korea, will dramatically increase in 1983 and the coming years.

Duty-free imports of slide fasteners from Taiwan and Korea under TSUS 745.7000, do not provide substantial benefits to either country because of the automated nature of production and, in the case of Taiwan, because of the multi-national nature of the owner of that country's principal supplier. By granting GSP on "slide fasteners valued not over \$0.04 each", the basic economy of the "developing country" is affected in only a minimal way, while U.S. producers are very substantially damaged by imports which, based on knowledge of the industry, must be substantially subsidized or sold in the United States at a loss. In neither event can this "developed" slide fastener business be described as within the ambit of the statutory purpose to aid the economies of Taiwan, Korea, and others.

¹ Adjusted by SFA for probable errors in IM146 data.

OVERALL IMPORTS CONTINUE TO ADVERSELY AFFECT U.S. SLIDE FASTENER PRODUCTION

In the last 7 years the following companies (among others) have gone out of business or merged in order to survive: Abbott Fastener Corp.; Best Fastener Co., Inc.; Flair Zipper Corp.; Murlen Fastener Corp.; Seal Fastener Co.; Serval Slide Fasteners, Inc.; Slide-Rite Mfg. Co.; Swift Slide Fastener Co.; and Weiner (Lewis) Industries, Inc.

Furthermore, Talon Inc., the originator and, until recently, the largest U.S. domiciled manufacturer of slide fasteners, was sold not long ago by Textron, Inc. and is currently undergoing reorganization in order to stay in business.

Some new assembly operations, that did not exist 15 years ago, may now be turning out finished slide fasteners from imported parts; but YKK (U.S.A.), Inc. is the only new domestic manufacturer of slide fasteners, beginning production in their Macon, GA plant in 1974.

In recent years, due to the depressed slide fastener market, some domestic manufacturers and assemblers have found it necessary to drop product lines and consolidate manufacturing facilities. Many overseas divisions of domestic producers which existed prior to 1976 have been sold or forced out of business.

We urge the Subcommittee on Trade to consider the plight of the U.S. slide fastener industry in its deliberations over the renewal of GSP.

SFA will be pleased to respond to all questions and assist the Subcommittee in any way. We trust our comments and recommendations are helpful to our Representatives and that the Government and its agencies will give the slide fastener industry the full consideration it deserves.

Respectfully submitted,

SLIDE FASTENER ASSOCIATION, INC.¹
By E. K. Fox, President.

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

Although it should have been structured differently in the framework of U.S. trade policy and of U.S. programs facilitating adjustment to freer world trade, the Generalized System of Preferences merits renewal when the present statutory authority expires on January 3, 1985. Renewal should include efforts to assure the United States greater market access in beneficiary developing countries and equitable access to greatly needed raw materials produced by those countries.

There is merit in the Administration's intention, in the selection of beneficiary countries, to give increased weight to their readiness to provide "adequate market access to U.S. exports" (quotation from Ambassador Brock's letter to the Chairman of the Committee on Ways and Means). However, I sense in this proposed change, and in proposals for increased weight to the level of economic development of a beneficiary country and for "limitation of GSP treatment for highly competitive products from the more advanced beneficiaries" (*ibid.*), devices (perhaps in some degree intended) to reduce substantially the scope of GSP tariff preferences. Reallocation to the least-developed countries of benefits denied to most-developed beneficiary countries could in some instances be tantamount to greatly curtailing the potentials for freer access to the U.S. market for the less-developed countries in general.

In other words, I have suspicions about the intended or unintended calculus of the Administration's proposals for renewal of the GSP program. Whatever the Administration has in mind, there is a huge void in the proposal, the same void I identified in 1975 in testimony before the International Trade Commission and the inter-agency Trade Policy Staff Committee. Namely, lack of a coherent strategy addressing any instances of adverse impact on weaker U.S. industries, and helping these industries adjust to these duty-free imports from developing countries, even before convincing cases might be made for import relief under the Trade Act of 1974. Government attention to such problems need not and should not wait for them to escalate to hardship definable as "serious injury" (or threat of "serious injury") under

¹ Members of the Slide Fastener Association, Inc., joining in this submission are: Coats & Clark, Inc., Newport News, VA; General Zipper Corp., Long Island City, NY; Gries/Dynacast Co., New Rochelle, NY; Ideal Fastener Corp., Oxford, NC; National Fastener Co., Inc., New York, NY; Opti-Zipper Inc., Harrington Park, NJ; Scovill Inc., Watertown, CT; Talon, Inc., Meadville, PA; YKK (U.S.A.), Inc., Lyndhurst, NJ.

the import-relief provisions of the Trade Act. Existing laws and regulations materially affecting these industries may have inequities that seriously and unfairly hamper the adjustment capacities of these industries. Such faults should be corrected without delay.

To the extent that GSP was justifiable as an initiative unrelated to a comprehensive free-and-fair-trade strategy to which the United States and the other industrialized countries should have raised their sights, it should have been made a prototype for successfully programming sustained implementation of free access to the U.S. market (and those of other industrialized countries) for all exports from the world's less-developed countries (ultimately from the advanced countries as well).

In proceeding with this program (it should have been done at the very outset), the Administration should be addressing the question, not of which products to include in the tariff-preference process and which to exclude, but of which industries in the United States are likely to have serious adjustment problems in the wake of such duty-free entry, and the kind of government assistance that would be most constructive. The International Trade Commission should have been focusing, not on "peril point" judgments on what industries would not be able to cope with such reductions in trade barriers (a fanciful chore unworthy of a commission even composed of greats like Frank Taussig and Ben Dorfman), but on the current and anticipated adjustment problems of affected industries, and the kinds of adjustment assistance the government might consider providing, i.e., short of maintaining or raising trade barriers.

It should be recognized that exemption of a product from tariff-free preferences to developing countries is itself a form of government help, involving a cost to other sectors of our economy and to our foreign economic objectives. No form of government assistance to an ailing industry makes policy sense except a coherent, comprehensive, carefully monitored policy or constructive aid to an industry whose problems have been carefully diagnosed in the context of sound economic standards and the overall imperatives of the national interest. It is high time the government stopped using additional trade barriers, or retaining old ones, as the sole or primary instrument of industrial assistance. Readiness to program the removal of all import restrictions would in fact spur government and the affected industries to face up to adjustment problems in the most effective manner, rather than sweeping them under the rug by misguided recourse to import controls, old or new.

It is unfortunate that various products have been legislatively exempted from tariff negotiations, and even more of them from duty-free preferences to developing countries. It would be even more unfortunate if the Administration added to this list. A major cost of such a retreat from freer trade would be the weakened credibility of U.S. concern with the aspirations of under-developed countries—areas of the world that are crucial in various ways to the economic viability of our own economy. The United States must stop playing games—dangerous games—with the southern half of this shaky world's shaky economy. Even if the government did not expand the existing list of exemptions, there is still the escape-clause sword of Damocles hovering over countries that might successfully use these preferences. There is also the U.S. government's proclivity to seek "orderly marketing" agreements as a sophisticated form of protectionism that avoids the crudities of unilateral import quotas—a ploy that often seems to anesthetize many self-styled "free traders".

If it is compellingly necessary, in extremes cases, to exclude certain products from tariff-free preferences because of clear, present and extraordinary problems of import impact, such exclusions should be only temporary and should immediately spark adjustment-assistance efforts calculated to qualify these products for tariff removal as quickly as possible. Such reforms in the handling of import restriction should be integrated into the comprehensive free-trade strategy that needs to be undertaken with deliberate speed, as our Council alone has been urging for many years.